ACCOUNTING STANDARDS BOARD

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The International Public Sector Accounting Standards Board

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Submission via website

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Dear Ross

COMMENTS ON EXPOSURE DRAFT ON *IMPROVEMENTS TO IPSAS, 2021* (ED 80)

We thank you for the opportunity to provide comments on ED 80. We were pleased to note that the IPSASB decided not to undertake an Improvements to IPSAS project in 2020. We welcome an approach in future that considers the extent of amendments each year, and if it is found that there are limited amendments that need to be made, those amendments stand over to the following year.

The comments outlined in this letter are those of the Secretariat of the ASB and not the Board. The comments have been formulated after limited consultation with our stakeholders which included preparers, auditors, technical experts, consultants, professional bodies (including a representative from the Pan African Federation of Accountants) and users.

We are generally supportive of the amendments. Our specific comments on the proposals in ED 80 are outlined below.

Interest rate benchmark reform

We are unable to provide detailed comment on the amendments proposed on the interest rate benchmark reform in Parts I-4, II-1a, II-1b, II-1c, II-2a, II-2b and II-2c of the Exposure Draft for the following reasons:

- Standards of GRAP (our local public sector accounting Standards based on IPSAS) do not include hedge accounting requirements. Our stakeholders' hedging activities are limited by legislation, and they therefore did not express a need for them.
- South Africa is in the process of identifying alternative rates to replace interest rate benchmarks and is therefore in phase 1 (pre-replacement).

Stakeholders accepted that the proposed amendments are aligned with the amendments made by the International Accounting Standards Board (IASB) to International Financial Reporting Standards (IFRS Standards).

Stakeholders questioned the inclusion of these amendments as part of the Improvements project as they appear more substantive in nature than other amendments. It may have been more appropriate for the IPSASB to publish these amendments in a separate Exposure Draft, as the IPSASB's constituents may not have dedicated resources to commenting on the Improvements to IPSAS. This may be because Improvements are understood to be non-substantive changes and the IPSASB has a large number of important Exposure Drafts out for comment during the same period where constituents may have focused their efforts.

We propose that the IPSASB considers whether additional actions may be necessary to solicit constituent feedback on these proposals based on the extent of comment received on this Exposure Draft. The IPSASB could also consider raising awareness about the proposed changes related to the interest rate benchmark reform specifically once approved.

Onerous contracts – cost of fulfilling a contract

Although our stakeholders supported the proposed amendments in Part II-4b in principle, they had reservations about the practical implications. The amendments may have limited implications as stakeholders noted that the contracts where the unavoidable costs of meeting the contract obligations exceed the economic benefits or service potential expected from the contract are often construction contracts in the scope of GRAP 11 on *Construction Contracts* (comparable to IPSAS 11 on *Construction Contracts*) rather than contracts in IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets*. GRAP 11 already provides guidance on the recognition of a deficit for these contracts.

However, we are concerned that it may be difficult for entities to identify and allocate all fixed and direct costs that may relate to each contract, because entities are unlikely to budget and record information at a contract level and the actual information may not be available. Therefore it would be difficult to comply with the requirements both at the start of the contract as well as throughout the duration thereof.

We note that it may be helpful to clarify whether impairment losses assessed and recognised before establishing a provision for an onerous contract are also considered as part of the indirect costs to establish the cost of fulfilling a contract. It may be particularly unclear where the indicator of impairment relates to the use of the asset to fulfil the contract.

Lastly, we note that the IPSASB is not proposing any public sector changes to the amendments made by the IASB, however, local private sector stakeholders also expressed concerns to the IASB during its consultation period about the practicality of the amendments.

We propose that the IPSASB considers amending the requirement to allocate fixed and direct costs to the cost of fulfilling a contract. We propose that it should be a recommendation in instances where an entity manages contract costs by including allocated fixed cost and the information is available. We are of the view that the benefits of providing the information in the financial statements may outweigh the resources required from entities to generate the information (when the information is not already available). We are of the view it may be appropriate to depart from the IFRS requirements, as entities in the public sector likely have limited "exchange" contracts in the scope of these amendments.

Should you have any questions regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely

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Technical Director