IPSASB International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 10**	For:
Meeting Location:	Toronto, Canada		☐ Approval
Meeting Date:	December 5–8, 2023		☒ Discussion
			☐ Information

IFRIC ALIGNMENT – NARROW SCOPE AMENDMENTS

Project summary	The objective of this narrow scope amendments project is to review IFRIC/SIC Interpretations issued but not yet considered by the IPSASB, to determine whether they are applicable and to be incorporated into IPSAS literature.	
Project staff lead	• Eileen Zhou, Principal	
Meeting objectives	***Topic***	***Agenda Item***
Project management	Project Management Dashboard	10.1.1
	Instructions up to Previous Meeting	10.1.2
	Decisions up to Previous Meeting	10.1.3
Decisions required at this meeting	Proposed Approach for the Narrow Scope Amendments Project	10.2.1
	Analyzing IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	10.2.2

Prepared by: Eileen Zhou (November 2023)

Agenda Item 10.1.1

IFRIC ALIGNMENT – NARROW SCOPE AMENDMENTS: PROJECT MANAGEMENT DASHBOARD

Topic	December 2023	March 2024
Overall Project Management		
Confirm approach for the narrow scope amendments project		
Consider each IFRIC/SIC Interpretation (analysis and potential drafting)		
• IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*		
• IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*		
• IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*		
• IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*		
• IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*		
• IFRIC 21, *Levies*		
• SIC-7, *Introduction of the Euro*		
Approve Exposure Draft (with Basis for Conclusions)		

Legend	
✓	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

Agenda Item 10.1.2

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
n/a	1. n/a	1. n/a

DECISIONS UP TO PREVIOUS MEETING

Meeting	**Decision**	**BC Reference**
September 2023	1. A narrow scope amendment project should be initiated to review the IFRICs/SICs issued but not yet considered by IPSASB, to determine their applicability and develop proposed guidance.	1. n/a

Proposed Approach for the Narrow Scope Amendments Project

Question

1. Does the IPSASB agree with the proposed approach for this project?

Recommendation

2. Staff recommend that for this Narrow Scope Amendments Project, the IPSASB:

   (a) Consider the 7 IFRIC/SIC Interpretations listed in Appendix 1, Table 1;

   (b) Use the *Improvements to IPSAS* analysis process to determine whether each Interpretation is applicable and appropriate for the public sector and thus should be incorporated into IPSAS; and

   (c) Review draft guidance proposed for any Interpretations to be incorporated into IPSAS.

Background

3. The IPSASB develops accrual IPSAS for the public sector and uses IFRS as a basis, with adaptations to reflect the public sector context and address public sector financial reporting issues. To support alignment where appropriate, the IPSASB also considers Interpretations developed by the IFRS Interpretations Committee (formerly "International Financial Reporting Interpretations Committee" (IFRIC)) and the former Standing Interpretations Committee (SIC)[1]. IFRIC/SIC Interpretations provide guidance to support entities in consistently applying IFRS accounting standards. Interpretations do not revise, replace, nor add to existing accounting principles.

4. The majority of IFRIC and SIC Interpretations issued to date are considered in IPSASB's previous or current financial reporting projects, including its ongoing Improvements to IPSAS. However, some have not yet been considered by the IPSASB.

5. In September 2023, the IPSASB agreed to initiate a narrow scope amendments project to maintain alignment with IFRS where appropriate. This narrow scope amendments project will review IFRIC/SIC Interpretations issued but not yet considered by the IPSASB, to determine whether they are applicable and to be incorporated into IPSAS literature.

Analysis

Interpretations that will be considered

6. The IPSAS-IFRS Alignment Dashboard provides a list of the IFRIC/SIC Interpretations not yet considered or addressed by the IPSASB (Agenda Item 1.7, Table 3). This list is updated by staff and tabled for the IPSASB's information at each quarterly meeting.

7. 6 IFRIC and 1 SIC Interpretations may be relevant to IPSAS and are not being addressed in an active IPSASB project (see Appendix 1 for details). The IPSASB agreed in September 2023 to consider these 7 Interpretations in this narrow scope amendments project.

[1] The IFRS Interpretations Committee is an interpretive body of the IASB that responds to questions about the application of IFRS. Based on its discussions, the IFRS Interpretations Committee may then issue IFRIC Interpretations to provide guidance on the *application* of the IASB's standards, with its Basis for Conclusions.The majority of SIC publications have been superseded through IASB or IFRIC projects.

Proposed approach: Considering and incorporating relevant Interpretations

8. For each IFRIC/SIC Interpretation being considered, staff propose to:

   (a) **Analyze the Interpretation** to determine whether its applicable and appropriate for the public sector; and if so,

   (b) **Present draft guidance** to incorporate into IPSAS, for the IPSASB's consideration.

(A) Analyzing the Interpretation

9. In the past, the IPSASB considered and incorporated IFRIC/SIC Interpretations on an ad-hoc basis:

   (a) As part of an active financial reporting project (e.g., IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments* (issued in 2004) was considered in the development of IPSAS 28, *Financial Instruments: Presentation* (first issued in 2010) as Appendix B); or

   (b) After the completion of a financial reporting project, as part of *Improvements to IPSAS* work (e.g., IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (issued in 2016) was assessed during *Improvements to IPSAS 2018*, and incorporated into IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (first issued in 2000) as Appendix A).

10. The IPSASB has an existing analysis process for its *Improvements to IPSAS*, and recently enhanced this process to more objectively and effectively consider whether the IASB's amendments (through its annual improvements to IFRS) were applicable for, and thus should be incorporated into, IPSAS.

11. Both the IASB's amendments to IFRS and IFRIC/SIC Interpretations serve to help clarify accounting principles in IFRS and their application. Given their similar nature, it would be appropriate the IPSASB should use the same analysis process to consider IASB's amendments and the Interpretations.

12. Based on this analysis, staff propose to use the updated analysis process used for *Improvements to IPSAS* to consider whether the 7 IFRIC/SIC Interpretations are applicable and appropriate for the public sector. This would ensure the IPSASB maintains a consistent and objective analysis process when considering the relevance and applicability of IASB's amendments and Interpretations.

(B) Presenting Draft Guidance to Incorporate into IPSAS

13. When an IFRIC/SIC Interpretation is deemed to be applicable and appropriate for the public sector based on the analysis, staff will:

   (a) Draft proposed guidance using the Interpretation as a basis, with revisions and modifications for the public sector and IPSAS context, as necessary;

   (b) Identify which IPSAS the proposed guidance should be added to as an Appendix; and

   (c) Propose Basis for Conclusions to reflect the IPSASB's review of the IFRIC/SIC Interpretation.

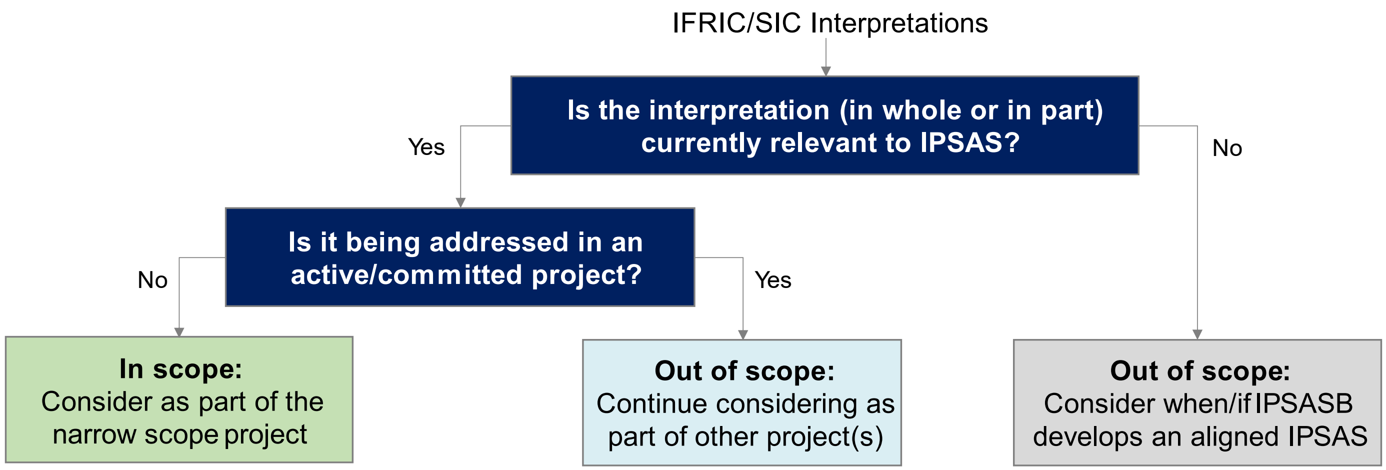
14. The IPSASB will review and approve proposed draft guidance to include in an Exposure Draft. Specifically, staff are of the view that the draft guidance can be included in the next *Improvements to IPSAS 2024*, consistent with the rationale in paragraph 11.

Decision Required

15. Does the IPSASB agree with the Staff recommendation?

Appendix 1 – IFRIC/SIC Interpretations to be Considered

1. Staff maintains the IPSAS-IFRS Alignment Dashboard (Agenda Item 1.7, Table 3) on a regular basis. This Dashboard provides a list of the IFRIC/SIC Interpretations not yet addressed by the IPSASB, as well as staff's existing commentary on each Interpretation, which is tabled for the IPSASB's information at each quarterly meeting. The following flowchart illustrates staff's considerations.



2. In total, 7 IFRIC/SIC Interpretations will be considered in this narrow scope amendments project, as they may be relevant (whether *in whole* or *in part*) to IPSAS. Interpretations that are *partly* relevant to IPSAS are those that reference multiple IFRS, but at least one IFRS does not have an aligned IPSAS (e.g., IFRIC 7 references both IAS 12, *Income Taxes* (no aligned IPSAS) and IAS 29, *Financial Reporting in Hyperinflationary Economies* (has aligned IPSAS)).

Table 1

IFRIC/SIC Interpretation	Purpose of Interpretation	Referenced IFRS (** indicates IFRS for which there is no aligned IPSAS)
IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Addresses accounting for changes in the measurement of existing decommissioning, restoration and similar liabilities.	IFRS 16 *Leases* IAS 1 *Presentation of Financial Statements* IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* IAS 16 *Property, Plant and Equipment* IAS 23 *Borrowing Costs* IAS 36 *Impairment of Assets* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Provides guidance on (1) how a contributor should account for its interest in a fund and (2) how to account for its obligation when a contributor has an obligation to make additional contributions.	IFRS 9 *Financial Instruments* IFRS 10 *Consolidated Financial Statements* IFRS 11 *Joint Arrangements* IAS 8 IAS 28 *Investments in Associates and Joint Ventures* IAS 37
IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*	Clarifies when decommissioning of waste electrical and electronic equipment would constitute an obligation event under IAS 37 for recognition of a provision for waste management costs.	IAS 8 IAS 37
IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	Provides guidance on (1) how IAS 29.8 ("…*stated in terms of the measuring unit current at the end of the reporting period*") should be interpreted, and (2) how an entity should account for opening deferred tax items in its restated financial statements. [Note 1]	** IAS 12 *Income Taxes* IAS 29 *Financial Reporting in Hyperinflationary Economies*

IFRIC/SIC Interpretation	Purpose of Interpretation	Referenced IFRS (** indicates IFRS for which there is no aligned IPSAS)
IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Addresses how a minimum funding requirement may affect the availability of reductions in future contributions, or give rise to a liability, and when refunds or reductions in future contributions should be regarded as available in accordance with IAS 19.8.	IAS 1 IAS 8 IAS 19 *Employee Benefits* IAS 37
IFRIC 21, *Levies*	Clarifies accounting for a liability to pay a levy in various circumstances, if that liability is within the scope of IAS 37, and when accounting for that liability when timing and amount is certain. [Note 1]	IAS 1 IAS 8 ** IAS 12 IAS 20 *Accounting for Governments Grants and Disclosures of Government Assistance* IAS 24 *Related Party Disclosures* ** IAS 34 *Interim Financial Reporting* IAS 37 IFRIC 6 *Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment*
SIC-7, *Introduction of the Euro*	Addresses how the introduction of the Euro (and the changeover from national currencies of participating EU Member States to the Euro) affects the application of IAS 21. [Note 2]	IAS 1 IAS 8 IAS 10 *Events after the Reporting Period* IAS 21 *The Effects of Changes in Foreign Exchange Rates* IAS 27 *Consolidated and Separate Financial Statements*

[Note 1]: Based on preliminary analysis, staff do not expect the full Interpretation to be relevant to IPSAS, as portions of the Interpretation relate to guidance that is not in IPSAS.

[Note 2]: Based on preliminary analysis, this Interpretation may not be widely applicable to current IPSAS users and could be applied through the IPSAS 3 hierarchy. Further analysis is necessary.

3. 5 IFRIC/SIC Interpretations are not considered in this narrow scope amendments project because they are not currently relevant to IPSAS or are already being considered or addressed in active/committed IPSASB projects.

Table 2

IFRIC/SIC Interpretation	Rationale for Exclusion
IFRIC 17, *Distributions of Non-cash Assets to Owners*	This IFRIC will be considered as part of the IPSASB's **current Presentation of Financial Statements project**.
IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*	This IFRIC is part of the IPSASB's **current Natural Resources project**.
IFRIC 10, *Interim Financial Reporting and Impairment*	This IFRIC addresses issues related to impairment losses recognized in an interim period as presented in IAS 34, *Interim Financial Reporting*. IPSAS does not have an IPSAS aligned with IAS 34. Thus, this IFRIC is **not currently relevant to IPSAS**.
IFRIC 23, *Uncertainty over Income Tax Treatments*	This IFRIC clarifies the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. IPSAS does not have an IPSAS aligned with IAS 12 as entities reporting using IPSAS generally do not pay income taxes. Thus, this IFRIC is **not currently relevant to IPSAS**.
SIC-25, *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*	This SIC addresses how an entity should account for the tax consequences of a change in its tax status or that of its shareholders. IPSAS does not have an IPSAS aligned with IAS 12 as entities reporting using IPSAS generally do not pay income taxes. Thus, this SIC is **not currently relevant to IPSAS**.

Analyzing IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

Question

1. Does the IPSASB agree to incorporate the proposed guidance based on IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*?

Recommendation

2. Staff recommend the IPSASB incorporate guidance based on IFRIC 7 into IPSAS 10, *Financial Reporting in Hyperinflationary Economies*, as proposed in Appendix 1, as it is applicable in the public sector and would provide greater clarity for public sector entities applying the accounting guidance.

Background

3. In September 2023, the IPSASB initiated a narrow scope amendments project to review IFRIC/SIC Interpretations issued but not yet considered by the IPSASB, to determine whether they are applicable and to be incorporated into IPSAS literature.

4. Agenda Item 10.2.1 proposed the approach to assessing each Interpretation in this narrow scope amendments project. This paper analyzes IFRIC 7 using the proposed approach.

Analysis

What is the nature of IFRIC 7?

5. The IFRS Interpretations Committee issued IFRIC 7 in 2005, effective for annual periods beginning on or after 1 March 2006. This Interpretation provides guidance on how to apply the requirements of IAS 29, *Financial Reporting in Hyperinflationary Economies* in a reporting period when the entity identifies (using the criteria in IAS 29 paragraph 3) the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

6. The IFRIC specifically answers two questions:

    (a) How should the IAS 29.8 requirement *'... stated in terms of the measuring unit current at the end of the reporting period'* be interpreted when an entity applies IAS 29? – the IFRIC clarifies that when an entity identifies the existence of hyperinflation in the economy of its functional currency, it shall apply IAS 29 as if the economy has always been hyperinflationary. This would require restatement of non-monetary items to reflect the effect of inflation (general purchasing power) on an entity.

    (b) How should an entity account for opening deferred tax items in its restated financial statements, under IAS 12, *Income Taxes*? – the IFRIC clarifies that, at the end of the reporting period, deferred tax items are recognized and measured in accordance with IAS 12 and provides additional guidance on remeasurement of deferred tax figures on the opening statement of financial position.

7. The IFRIC also clarifies how the entity should restate corresponding figures in the financial statements for subsequent reporting periods. Specifically, the entity should restate its financial statements, including the opening balance for the reporting period in which it identifies the existence of hyperinflation. The IFRIC confirmed that this treatment is similar to retrospective application of a change in accounting policy.

Is the referenced guidance aligned with IPSAS?

8. IFRIC 7 references two Standards, but there is only one equivalent IPSAS:

   (a) IAS 29*:* IPSAS 10 (issued in 2001) is primarily drawn from IAS 29 and provides guidance on the preparation and presentation of financial statements when an entity's functional currency is the currency of a hyperinflationary economy. IFRIC 7 refers to paragraphs 3 and 8 of IAS 29. IPSAS 10 has equivalent guidance in paragraphs 5 and 11, respectively.

   (b) IAS 12: there is no equivalent IPSAS. Thus, the guidance in IFRIC 7 related to IAS 12 and deferred tax items is not further considered in this analysis.

Is the Interpretation's guidance applicable to the public sector?

9. IFRIC 7 provides clarity on the application of accounting principles in IAS 29 when a private sector entity identifies the existence of hyperinflation in the economy of its functional currency. Public sector entities may also find themselves in similar situations, where they identify the existence of hyperinflation in the economy of its functional currency.

10. Since the referenced accounting principles in IAS 29 also exist in IPSAS 10 and are aligned, staff are of the view that the guidance in IFRIC 7 would also provide clarity on the application of accounting principles in IPSAS 10.

11. Thus, staff conclude that the guidance in IFRIC 7 are applicable and appropriate in the public sector and would clarify the application of existing guidance in IPSAS 10. It would also maintain alignment with the application of IAS 29.

Draft Guidance to Incorporate into IPSAS

12. Based on staff's conclusion in paragraph 11, staff:

   (a) Drafted guidance, using IFRIC 7 as a basis, with modifications for the public sector and IPSAS context. Key changes include terminology revisions consistent with the IPSASB's considerations in developing IPSAS 10[2] and using "Appendix" instead of "Interpretation"; and

   (b) Propose to incorporate the proposed guidance into IPSAS 10, as "Appendix A" (except for effective date guidance, which should be added to core text), consistent with past practice.

13. See proposed amendments to IPSAS 10 in Appendix 1. Staff will also draft an additional Basis for Conclusion for IPSAS 10 to reflect the IPSASB's decision on this analysis after the December 2023 meeting.

Decision Required

14. Does the IPSASB agree with the Staff recommendation?

[2] IPSAS 10 uses different terminology, in certain instances, from IAS 29. The most significant examples are the use of the terms "revenue," "statement of financial performance," and "net assets/equity" in IPSAS 10. (The equivalent terms in IAS 29 are "income," "income statement," and "equity.) In addition, IPSAS 10 uses "reporting date" whereas IAS 29 uses "end of the reporting period".

Appendix 1 – Additional Guidance on Applying the Restatement Approach to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

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

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

…

Effective Date

…

38G. Appendix A (paragraphs A1-A3) were added by *[draft] Improvements to IPSAS, 2024*, issued in [Month] [Year]. An entity shall apply these amendments for annual periods beginning on or after 1 January [Year]. Earlier application is encouraged. If an entity applies this Interpretation to financial statements for a period beginning before 1 January [Year], it shall disclose that fact.

…

Appendix A

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

This Appendix is an integral part of IPSAS 10

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

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

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

…

Basis for Conclusions

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

…

Revisions of IPSAS 10 as a result of *[draft] Improvements to IPSAS, 2024*

BC4. [pending IPSASB's decision on Agenda Item 10.2.2: The IPSASB reviewed the requirements of IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*, issued by the IASB in 2005, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 10.]

…

Comparison with IAS 29

IPSAS 10, *Financial Reporting in Hyperinflationary Economies* is drawn primarily from IAS 29, *Financial Reporting in Hyperinflationary Economies* and includes amendments made to IAS 29 as part of the *Improvements to IFRSs* issued in May 2008 and [draft] *Improvements to IPSAS, 2024* issued in [Month] [Year]. The main differences between IPSAS 10 and IAS 29 are as follows:

…