AGENDA ITEM 6.3.1

Exposure Draft 85
July 2023
Comments due: September 30, 2023

IPSAS®

Proposed International Public Sector Accounting Standard®

Improvements to IPSAS, 2023

IPSASB International Public Sector Accounting Standards Board®

International Public Sector Accounting Standards Board®

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

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

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

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

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

REQUEST FOR COMMENTS

This Exposure Draft, *Improvements to IPSAS, 2023*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 30, 2023.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

EXPOSURE DRAFT 85, IMPROVEMENTS TO IPSAS, 2023

CONTENTS

INTRODUCTION

1. Exposure Draft (ED) 85, *Improvements to IPSAS, 2023* deals with non-substantive changes to IPSAS that arise through publications of the International Accounting Standards Board (IASB)—see IFRS Alignment Improvements to IPSAS.

2. Regarding the IASB's projects, the IPSASB considered several IASB's publications during the development of this ED that were issued since the last Improvements to IPSAS cycle and that either have not been considered in another IPSASB's project or that have no equivalent IPSAS.

3. Table 1 identifies the IASB's publications, the subject of the amendment, and the IPSASB's rationale for not including them in this ED.

Table 1: IASB's Publications <u>not</u> Included in ED 85

IASB's Publication	***Subject of Amendment***	***Rationale for non-inclusion in ED 85***
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Issued in May 2021)	The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	There is no equivalent IPSAS for IAS 12.
Initial Application of IFRS 17 and IFRS 9—Comparative Information (Issued in December 2021)	Reduce the accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of the two Standards.	There is no equivalent IPSAS for IFRS 17.
Disclosure of Accounting Policies, (Amendments to IAS 1 and IFRS Practice Statement 2) (Issued in February 2021)	Various amendments to IAS 1, Presentation of Financial Statements and Practice Statement 2 related to the IASB's ongoing disclosure initiative project.	These amendments are the second amendments to IAS 1 resulting from the ongoing IASB's disclosure initiative project. These amendments will be considered as part of the IPSASB's project on *Presentation of Financial Statements*.

IFRS ALIGNMENT IMPROVEMENTS TO IPSAS

Objective

1. The objective of the Exposure Draft (ED) is to propose Improvements to IPSAS to align with amendments to International Financial Reporting Standards (IFRS) based on the International Accounting Standards Board's (IASB) *Narrow Scope Amendments* projects.

Request for Comments

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

IPSAS Addressed

3. The Improvements project deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated. Amendments arise through consideration of the narrow scope amendments projects of the IASB.

4. Table 2 sets out the IFRS alignment improvements to IPSAS, including the summary of proposed change in ED 85.

Table 2: IFRS Alignment Improvements to IPSAS proposed in ED 85:

IFRS	***Equivalent IPSAS***	***Summary of Proposed Change in ED 85***
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) (Issued in January 2020) *Non-current Liabilities with Covenants* (Issued in October 2022)	IPSAS 1, *Presentation of Financial Statements*	The amendments clarify the principles related to: • The right to defer settlement for at least twelve months (with or without covenants); and • The meaning of 'settlement' when a liability is rolled over under and existing loan facility. (see **Part 1**)
Definition of Accounting Estimates (Amendments to IAS 8) (Issued in February 2021).	IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*	The amendments introduce the definition of accounting estimates to clarify the distinction of changes in accounting estimates and changes in accounting policies in IPSAS 3 (see **Part 2**).
Definition of Material (Amendments to IAS 1 and IAS 8) (Issued in October 2018)	IPSAS 1, *Presentation of Financial Statements* IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*	The amendments introduce new guidance to help entities make materiality judgements in IPSAS 1 (see **Part 3**) and make the consequential amendment in IPSAS 3 (see **Part 4**).

IFRS	***Equivalent IPSAS***	***Summary of Proposed Change in ED 85***
Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (Issued in August 2020)	IPSAS 43, *Leases*	Practical expedient for accounting for lease modifications in IPSAS 43, *Leases* (see **Part 5** in [draft] ED 85).
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) (Issued in September 2022)	IPSAS 43, *Leases*	Amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right-of-use it retains (see **Part 6** in [draft] ED 85).

Amendment: Part 1

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 83A, 83B, 86A, 87A, 87B, 87C and 153S are added. Paragraphs 70, 80, 82, 84, 85, 87 are amended. New headings are inserted before paragraphs 81, 82, 83A, and 87A. Paragraphs 81, 83, 86 are not amended but have been included for ease of reference. New text is underlined and deleted text is struck through.

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Structure and Content

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Statement of Financial Position

…

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87<u>C</u>, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

…

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**

    (a) **It is expected to be settled in the entity's normal operating cycle;**

    (b) **It is held primarily for the purpose of being traded;**

    (c) **It is due to be settled within twelve months after the reporting date; or**

    (d) **The entity does not have ~~an unconditional~~ <u>the</u> right <u>at the end of the reporting date</u> to defer settlement of the liability for at least twelve months after the reporting date ~~(see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.~~**

    All other liabilities shall be classified as non-current.

<u>Normal Operating Cycle (paragraph 80(a))</u>

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities that meet the definition of held for trading in IPSAS 41, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs ~~85 and 86~~ 83A–86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) The original term was for a period longer than twelve months; and

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the end of the reporting date.

83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:

(a) Affect whether that right exists at the end of the reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the end of the reporting date. Such a covenant affects whether the right exists at the end of the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the end of the reporting date but assessed for compliance only after the reporting date).

(b) Do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the covenant only after the reporting period (for example, a covenant based on the entity's financial position six months after the end of the reporting date).

84. If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the end of the reporting date, to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance)~~ If the entity has no such right, the entity does not consider the potential to refinance ~~is not considered~~ and classifies the obligation ~~is classified~~ as current.

85. When an entity breaches ~~an undertaking~~ a condition ~~under~~ of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the

authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the end of the reporting date and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).

87. ~~In respect of loans classified as current liabilities, if~~ If the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, *Events after the Reporting Date*:

(a) Refinancing on a long-term basis of a liability classified as current (see paragraph 83);

(b) Rectification of a breach of a long-term loan agreement classified as current (see paragraph 85); ~~and~~

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ~~ending at least twelve months after the reporting date.~~ classified as current (see paragraph 86); and

(d) Settlement of a liability classified as non-current (see paragraph 86A).

Settlement (paragraphs 80(a), 80(c) and 80(d))

87A. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

(a) Cash or other economic resources—for example, goods or services; or

(b) The entity's own equity instruments, unless paragraph 87C applies.

87B. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:

(a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting date.

87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IPSAS 28 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognizing it separately from the liability as an equity component of a compound financial instrument.

…

Effective Date and Transition

Effective Date

153S. **Paragraphs 83A, 83B, 86A, 87A, 87B, and 87C were added and paragraphs 70, 80, 82, 84, 85, 87 were amended by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

Basis for Conclusions

…

Revision of IPSAS 1 as a result of [draft] *Improvements to IPSAS, 2023*

BC39. The IPSASB reviewed the revisions to IAS 1, *Presentation* of *Financial Statements*, included in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* and *Non-current Liabilities with Covenants* issued by the IASB in January 2020 and in October 2022, respectively, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

Amendment: Part 2

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 7, 37, 39, 43, and 53 are amended. Paragraphs 37A, 37B, 39A, 59G, and IG18–IG21 are added. Paragraphs IG14–IG17 and the heading above paragraph IG14 are deleted. New headings are inserted before paragraphs 39, 41, and IG18 and new subheadings are inserted before paragraph IG18 and IG20. New text is underlined and deleted text is struck through.

…

Definitions

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

…

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.~~

…

…

Accounting ~~Changes in Accounting~~ Estimates

37. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. ~~As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated.~~ Developing accounting estimates involves the use of judgments or assumptions ~~Estimation involves judgments~~ based on the latest available, reliable information. Examples of accounting estimates include ~~For example, estimates may be required of~~:

(a) Tax revenue due to government;

(b) A loss allowance for expected credit losses, applying IPSAS 41, *Financial Instruments* ~~Bad debts arising from uncollected taxes~~;

(c) The net realizable value of an item of inventory, applying IPSAS 12, *Inventories* ~~Inventory obsolescence~~;

(d) The fair value of an asset or liability, applying IPSAS 46, *Measurement* ~~financial assets or financial liabilities~~;

(e) The depreciation expense for an item of property, plant, and equipment, applying IPSAS 17 ~~The useful lives of, or expected pattern of consumption of future economic benefits or service~~

~~potential embodied in, depreciable assets, or the percentage completion of road construction~~; and

(f) A provision for ~~W~~warranty obligations~~.~~, applying IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

37A. An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying IPSAS 41) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying IPSAS 46).

37B. The term 'estimate' in IPSAS sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

…

Changes in Accounting Estimates

39. An entity may need to change an accounting estimate ~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in accounting ~~the revision of an~~ estimate does not relate to prior periods and is not the correction of an error.

39A. The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

…

Applying Changes in Accounting Estimates

…

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of ~~the~~ that change ~~in estimate~~. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in a loss allowance for expected credit losses ~~the estimate of the amount of bad debts~~ affects only the current period's surplus or deficit, and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

~~**Disclosure**~~

Disclosure

…

Errors

…

Limitations of Retrospective Restatement

…

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need changing ~~revision~~ as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

…

Effective Date and Transition

…

59G. **Paragraphs 7, 37, 39, 43, and 53 are amended and paragraphs 37A, 37B, and 39A are deleted by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. An entity shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting date in which it applies the amendments.**

Basis for Conclusions

…

Revision of IPSAS 3 as a result of [draft] *Improvements to IPSAS, 2023*

BC16. The IPSASB reviewed the revisions to IAS 8, *Accounting Policies, Changes in Accounting Estimates*, included in *Definition of Accounting Estimates* (Amendments to IAS 8) issued by the IASB in February 2021, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

…

Implementation Guidance

This guidance accompanies, but is not part of IPSAS 3.

…

~~Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable~~

IG14. ~~During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model.~~ [Deleted]

IG15. ~~In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which~~

~~provided information on the components held and their fair values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.~~ [Deleted]

IG16. ~~Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.~~ [Deleted]

IG17. ~~Additional information:~~

	~~CU~~
~~Property, plant and equipment~~	
~~Cost~~	~~25,000~~
~~Depreciation~~	~~(14,000)~~
~~Net book value~~	~~11,000~~
~~Prospective depreciation expense for 20X2 (old basis)~~	~~1,500~~
~~Some results of the engineering survey~~	
~~Valuation~~	~~17,000~~
~~Estimated residual value~~	~~3,000~~
~~Average remaining assets life (years)~~	~~7~~
~~Depreciation expense on existing property, plant and equipment for 20X2 (new basis)~~	~~2,000~~

~~*Extracts from Notes to the Financial Statements*~~

~~1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.~~ [Deleted]

Applying the Definition of Accounting Estimates—Fair value of an Investment Property

Fact Pattern

IG18. Entity A owns an investment property that it accounts for by applying the current value model in IPSAS 16, *Investment Property*. Since it acquired the investment property, Entity A has been measuring the investment property's fair value using a valuation technique consistent with the income approach described in IPSAS 46, *Measurement*.

IG19. However, because of changes in market conditions since the previous reporting date, Entity A changes the valuation technique it uses to a valuation technique consistent with the market approach described in IPSAS 46. Entity A has concluded that the resulting measurement is more representative of the investment property's fair value in the circumstances existing at the end of the current reporting date and, therefore, that IPSAS 46 permits such a change. Entity A has also concluded that the change in the valuation technique is not a correction of a prior period error.

Applying the Definition of Accounting Estimates

IG20. The fair value of the investment property is an accounting estimate because:

(a) The fair value of the investment property is a monetary amount in the financial statements that is subject to measurement uncertainty. Fair value reflects the price that would be received or paid in a hypothetical sale or purchase transaction between market participants—accordingly, it cannot be observed directly and must instead be estimated;

(b) The fair value of the investment property is an output of a measurement technique (a valuation technique) used in applying the accounting policy (current value model); and

(c) In developing its estimate of the fair value of the investment property, Entity A uses judgments and assumptions, for example, in:

(i) Selecting the measurement technique—selecting the valuation technique that is appropriate in the circumstances; and

(ii) Applying the measurement technique—developing the inputs that market participants would use in applying the valuation technique, such as information generated by market transactions involving comparable assets.

IG21. In this fact pattern, the change in the valuation technique is a change in the measurement technique applied to estimate the fair value of the investment property. The effect of this change is a change in an accounting estimate because the accounting policy—to measure the investment property at fair value—has not changed.

Amendment: Part 3

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 7 and 13 are amended. Paragraphs 12A, 13A, and 153T are added. New text is underlined and deleted text is struck through.

…

Definitions

7. …

Material: ~~Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.~~ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

…

Materiality

12A. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) Information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) Dissimilar items, transactions or other events are inappropriately aggregated;

(d) Similar items, transactions or other events are inappropriately disaggregated; and

(e) The understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

13. Assessing whether information ~~an omission or misstatement~~ could reasonably be expected to influence decisions ~~of~~ made by the primary users of a specific reporting entity's general purpose financial statements~~, and so be material,~~ requires an entity to consider ~~consideration of~~ the characteristics of those users while also considering the entity's own circumstances. ~~Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting, and a willingness to study the information with reasonable diligence. Therefore, the~~

~~assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.~~

13A. Many existing and potential service recipients and resource providers cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of public sector programs and operations and who review and analyze the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

…

Effective Date

…

153T. **Paragraphs 7 and 13 are amended and paragraphs 12A and 13A are added by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

…

Revision of IPSAS 1 as a result of [draft] *Improvements to IPSAS, 2023*

BC40. The IPSASB reviewed the revisions to IAS 1, *Presentation of Financial Statements*, included in *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

Amendment: Part 4

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 8 is deleted and paragraph 59H is added. New text is underlined and deleted text is struck through.

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Definitions

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Materiality

8. ~~Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.~~ [Deleted]

…

Effective Date

…

59H. **Paragraph 8 was deleted by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Basis for Conclusions

…

Revision of IPSAS 3 as a result of [draft] *Improvements to IPSAS, 2023*

BC17. The IPSASB reviewed the revisions to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, included in *Definition of Material* (Amendments to IAS 1 and IAS 8) issued by the IASB in October 2018, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

Amendment: Part 5

Amendments to IPSAS 43, *Leases*

Paragraphs 102A–102C, 103F, and 126A–126B are added. A new heading is inserted before paragraph 102A and a subheading is added before paragraph 126A. New text is underlined.

…

Temporary Exception Arising from Interest Rate Benchmark Reform

102A. A lessee shall apply paragraphs 102B–102C to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 72B and 72D of IPSAS 41). These paragraphs apply only to such lease modifications. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 155B of IPSAS 41.

102B. As a practical expedient, a lessee shall apply paragraph 43 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) The modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the lease payments is economically equivalent to the previous basis (i.e., the basis immediately preceding the modification).

102C. However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

...

Effective Date and Transition

...

Effective Date

…

103F. **Paragraphs 102A–102C and 126A–126B were added by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Transition

...

Interest Rate Benchmark Reform—Phase 2

126A. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraph 126B.

126B. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

…

Basis for Conclusions

…

Revision of IPSAS 43 as a result of [draft] *Improvements to IPSAS, 2023*

BC105. The IPSASB reviewed the revisions to IFRS 16, *Leases*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 4, and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2* amendments.

Amendment: Part 6

Amendments to IPSAS 43, *Leases*

Paragraphs 101A, 103G, and 126C are added. Paragraph 106 is amended. New text is underlined and deleted text is struck through.

…

Assessing whether the Transfer of the Asset is a Sale

…

Transfer of the Asset is a Sale

…

101A. After the commencement date, the seller-lessee shall apply paragraphs 30–36 to the right-of-use asset arising from the leaseback and paragraphs 37–47 to the lease liability arising from the leaseback. In applying paragraphs 37–47, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in surplus or deficit any gain or loss relating to the partial or full termination of a lease as required by paragraph 47(a).

…

Effective Date and Transition

Effective Date

…

103G. **Paragraphs 101A and 126C were added, and paragraph 106 was amended by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Transition

106. For the purposes of the requirements in paragraphs 103–~~123~~126C, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

…

Lease Liability in a Sale and Leaseback

126C. A seller-lessee shall apply paragraphs 101A and 106 (see paragraph 103B) retrospectively in accordance with IPSAS 3 to sale and leaseback transactions entered into after the date of initial application.

Basis for Conclusions

…

Revision of IPSAS 43 as a result of [draft] *Improvements to IPSAS, 2023*

BC106. The IPSASB reviewed the revisions to IPSAS 43, *Leases*, included in *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) issued by the IASB in September 2022, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Lease Liability in a Sale and Leaseback* amendments.

…

Amendments to the Illustrative Examples Accompanying IPSAS 43, *Leases*

Paragraph IE11 and Illustrative example 24 are amended. Paragraph IE12 and Illustrative Example 25 are added. New text is underlined and deleted text is struck through.

Sale and Leaseback Transactions (paragraphs 97–102)

IE11. Example 24 illustrates the application of the requirements in paragraphs ~~97~~98–~~102~~101 of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 24–Sale and Leaseback Transaction with fixed payments and above-market terms

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements ~~for determining when a performance obligation is satisfied in~~ of IPSAS 47, Revenue to be accounted for as a sale of the building. *Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. ~~This example ignores any initial direct costs.~~*

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 100(b) of IPSAS 43, the~~*The*~~ *amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognized as additional financing provided by Buyer-lessor to Seller-lessee.*

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) ~~amounts to~~ is CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

Seller-lessee

Applying paragraph 99(a) of IPSAS 43, at~~At~~ the commencement date~~,~~ Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. Seller-lessee calculates this amount~~This is calculated~~ as: CU1,000,000 (the carrying amount of the building) ~~÷ CU1,800,000 (the fair value of the building)~~ × CU1,259,200 (the discounted lease payments for the 18-year right-of-use asset) ÷ CU1,800,000 (the fair value of the building).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU559,645 (CU800,000 ~~÷ CU1,800,000~~ × CU1,259,200 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU240,355 (CU800,000 ~~÷ CU1,800,000~~ × (CU1,800,000 – CU1,259,200) ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
Lease liability		CU1,259,200
Financial liability		~~CU1,459,200~~
		CU200,000
Gain on rights transferred		CU240,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000	
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)	
Cash		CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

IE12. Example 25 illustrates the application of the requirements in paragraph 101A and paragraphs 30–47 of IPSAS 43 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

Example 25–Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47 to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 percent per annum.

Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 percent.[a] Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

Dr Cash CU1,800,000

Dr Right-of-use asset (CU1,000,000 × 25 per cent) CU250,000

Cr Building CU1,000,000

Cr Lease liability CU450,000

Cr Gain on rights transferred ((CU1,800,000 – CU1,000,000) × 75 per cent) CU600,000

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 37–47 of IPSAS 43, Seller-lessee develops an accounting policy for determining 'lease payments' in a way that it would not recognize any amount of the gain that relates to the right of use it retains. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 99(a) of IPSAS 43—for determining the measurement of the right-of-use asset and the gain recognized on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 101A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

	Lease liability				Right-of-use asset		
Year	Beginning balance	Lease payments[b]	3 percent interest expense[c]	Ending balance	Beginning balance	Deprecia-tion charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	**450,000**	(95,902)	13,500	**367,598**	**250,000**	(50,000)	**200,000**
2	**367,598**	(98,124)	11,028	**280,502**	**200,000**	(50,000)	**150,000**
3	**280,502**	(99,243)	8,415	**189,674**	**150,000**	(50,000)	**100,000**
4	**189,674**	(100,101)	5,690	**95,263**	**100,000**	(50,000)	**50,000**
5	**95,263**	(98,121)	2,858	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,197 (CU99,321 – CU98,124) in surplus or deficit.

Approach 2—Equal lease payments over the lease term

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

	Lease liability				Right-of-use asset		
Year	Beginning balance	Lease payments[d]	3 percent interest expense[c]	Ending balance	Beginning balance	Deprecia-tion charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	**450,000**	(98,260)	13,500	**365,240**	**250,000**	(50,000)	**200,000**
2	**365,240**	(98,260)	10,957	**277,937**	**200,000**	(50,000)	**150,000**
3	**277,937**	(98,260)	8,338	**188,015**	**150,000**	(50,000)	**100,000**
4	**188,015**	(98,260)	5,640	**95,395**	**100,000**	(50,000)	**50,000**
5	**95,395**	(98,260)	2,865	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,061 (CU99,321 – CU98,260) in surplus or deficit.

(a) Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 99(a) does not prescribe a particular method for determining that proportion.

(b) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of CU450,000.

(c) Applying paragraph 101A and paragraph 37(a) of IPSAS 43, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.

(d) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of CU450,000.

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