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Agenda Item 9

Date: August 23, 2011
Memo to: Members of the IPSASB
From: Annette Davis
Subject: Improvements to IPSASs 2011

Objective of this Session

- To **review** responses to the March 2011 Exposure Draft, ED 45, *Improvements to IPSASs 2011*; and
- To **approve** the improvements to various IPSASs as set out in, *Improvements to IPSASs 2011*.
- To **note** the updated Tracking Table.

Agenda Material

9.1 Responses
9.2 Table of Respondents' Comments and Proposed Actions
9.3 Draft *Improvements to IPSASs 2011*
9.4 Overview of Responses – by Geographic Location, Function and Language
9.5 Tracking Table

Background

1. ED 45, *Improvements to IPSASs 2011* was issued in March 2011 and comprises three parts:
   (a) Part I: Deletion of Introduction (affects all IPSASs except for IPSAS 2, 5, 9, 10, 11, 15, 18, 19, 20 and 21).
   (b) Part II: Insertion of Objective Paragraph (affects IPSASs 6, 7, 8 and 10).
   (c) Part III: General Improvements (affects IPSASs 16, 17, 19 and 21).
2. The comment period ended on June 30, 2011. Staff received 15 responses to ED 45. These are contained in Agenda Paper 9.1.
3. An extract of the minutes from the March 2011 meeting is in Appendix A.

Overall Summary

4. Eight of the 15 respondents (2, 3, 4, 5, 7, 10, 13 and 15) expressed general positive support for the IPSASB's proposals in ED 45, although Respondents 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 gave additional comments. Seven of the respondents (1, 6, 8, 9, 11, 12 and 14) did not express an overall view.

5. Agenda Paper 9.2 is a table of Respondents' comments and the proposed response. Staff identified one key issue from the responses.

Key Issue: Proposed Deletion of the Requirements Relating to Exchanges of Assets that Lack Commercial Substance

6. Four respondents (10, 11, 14 and 15) disagree with the proposal to delete requirements in IPSAS 16 and IPSAS 17 (see pages 16–19 of ED 45) relating to exchanges of assets that lack commercial substance.

Background

7. When finalizing IPSAS 31, *Intangible Assets*, the IPSASB agreed that the requirements relating to an exchange of intangible assets that lacks commercial substance should be deleted. Below is an extract from the Minutes of the December 2009 meeting, where this decision was taken.

> ***Exchanges of Assets***
> A Member raised the concern that the section dealing with exchanges of assets when the transaction lacks commercial substance is a non-exchange transaction. Non-exchange transactions are addressed in IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)*. The IPSASB agreed to delete this guidance. The guidance on transactions when the fair value of neither the asset received nor the asset given up is reliably measurable (a non-monetary transaction) was retained because this issue is not addressed in other IPSASs. It was noted that transactions lacking commercial substance are also addressed in IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment*. Any changes required to those IPSASs will be considered by the IPSASB in future Annual Improvements.

8. This extract from the minutes shows it was agreed that an exchange of assets that lacks commercial substance is a non-exchange transaction. The IPSASB also agreed to delete the equivalent requirements for exchanges of assets that lack commercial substance in IPSAS 16 and IPSAS 17. The proposed deletions were included in ED 45.

Analysis

9. All four respondents stated that exchanges of assets that lack commercial substance are not non-exchange transactions and therefore guidance is required on what to do when there is an exchange of assets that lacks commercial substance.

10. The respondents explained that an exchange of an asset that lacks commercial substance occurs where an entity is in the same position as it was before the transaction, i.e., there is no material change in net assets. In contrast, where a non-exchange transaction occurs, there is a change in an entity's net assets.

11. Two respondents (10 and 15) give public sector examples of this type of transaction. For example, Respondent 10 states an example of "exchanges of parcels of land between an urban public sector agency and a developer, enabling the agency to obtain land in a blighted area in order to redevelop it." In this example, the assumption is that the relative fair values of each piece of land are similar, so there would be no material change in the net assets of the public sector agency. Therefore, it would not meet the definition of a non-exchange transaction.

12. Two respondents (11 and 14) considered that the IASB's rationale for including requirements for this type of transaction are also relevant to public sector entities and included an extract of the relevant paragraph from IAS 16, *Property, Plant and Equipment*, paragraph BC18, as follows:

    (a) Gains should not be recognized on exchanges of assets unless the exchanges represent the culmination of an earning process;

    (b) Exchanges of assets of a similar nature and value are not a substantive event warranting the recognition of gains; and

    (c) Requiring or permitting the recognition of gains from such exchanges enables entities to 'manufacture' gains by attributing inflated values to the assets exchanged, if the assets do not have observable market prices in active markets.

13. If the proposed deletion is approved, it would mean that where there is an exchange of assets that lacks commercial substance, the acquired asset would be measured at fair value. Using the reasoning from IAS 16, paragraph BC18, measuring an asset acquired from an exchange of assets that lacks commercial substance at fair value would not reflect the substance of the transaction. This is why the IASB includes requirements for this type of transaction to measure the cost of the asset acquired at the carrying amount of the asset given up.

14. If the IPSASB agrees to delete these requirements, as proposed in ED 45, then this type of transaction will be measured at fair value. Staff is not aware of a public sector specific reason for the accounting treatment for this type of transaction to be different from the underlying IFRSs.

Staff View regarding IPSAS 16 and IPSAS 17

15. Staff agrees with the respondents' view that exchanges of assets that lack commercial substance are different from a non-exchange transaction and considers that the respondents' request to retain the relevant paragraphs in IPSAS 16 and IPSAS 17 is the correct action to take.

> *Question 1 for the IPSASB:*
>
> Does the IPSASB agree that the paragraphs in IPSAS 16 and IPSAS 17 containing the requirements for exchanges of assets that lack commercial substance be retained?

Options regarding IPSAS 31

16. If the decision regarding Question 1 above is to retain the requirements relating to exchanges of assets that lack commercial substance, then Staff considers that the next improvements project, scheduled for 2013, should have a proposal to include these requirements in IPSAS 31.

17. If the IPSASB determines that these requirements should be deleted, as proposed in ED 45, then IPSAS 31 does not need to be included in the next improvements project.

> *Question 2 for the IPSASB:*
>
> If the answer to Question 1 is yes, does the IPSASB agree that a proposal to include requirements for exchanges of intangible assets that lack commercial substance in IPSAS 31 should be included in the next improvements project?

Other Issues

Insertion of Objective Paragraph in IPSASs 6–8

18. ED 45 proposes to include objective paragraphs for those IPSASs which do not currently include an objective paragraph. The affected IPSASs are:

Standard
IPSAS 6, *Consolidated and Separate Financial Statements*
IPSAS 7, *Investments in Associates*
IPSAS 8, *Interests in Joint Ventures*
IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

19. Subsequent to the issue of ED 45, the IPSASB agreed to commence a project on the revision of IPSASs 6–8. The estimated timetable for completion of this project is sometime in 2013, with the issue of revised IPSASs.

20. If the IPSASB agrees to insert objective paragraphs in IPSASs 6–8, it means that these standards will be shown as amended in the 2012 and 2013 Handbook. Then, in the 2014 Handbook, the revised Standards will replace them.

21. Respondent 13 noted that the IPSASB has recently commenced a project on the revision of IPSASs 6–8 and that the underlying revised and new IFRSs include objective paragraphs. This Respondent suggested that the revision of IPSASs 6–8 project could include similar wording to that used in the revised and new underlying IFRSs. In accordance with the "rules of the road" for adapting IFRSs for use by public sector entities, the wording of a proposed Standard, in this case IPSASs 6–8, will be based on the underlying revised IFRSs unless there is a public sector specific reason for changing it. This means that the wording of the objective paragraphs will be further amended.

22. Respondent 11 considers that the proposed deletion of the Introduction paragraphs should only go ahead if the proposed insertion of Objective paragraph (for IPSASs 6–8 and 10) goes ahead.

23. Staff notes Respondent's 11 point, but does not consider it worthwhile to amend IPSASs 6–8 whilst there is an active project to revise these Standards. Therefore, Staff proposes that IPSASs 6–8 are not amended.

> *Question 3 for the IPSASB:*
>
> Does the IPSASB agree that IPSASs 6–8 should not be amended to include Objective paragraphs?

24. Respondent 13 has also commented on the proposed text of the objective paragraphs for IPSAS 7 and IPSAS 8. Respondent 10 has also proposed amended wording for the objectives of IPSAS 6 and IPSAS 7. If the IPSASB decides that Objective paragraphs should be amended in accordance with the proposals in ED 45, Staff will consider these comments when finalizing the Standard.

Comments Relating to Potential Future Projects

25. ED 45 included Specific Matter for Comment 1 (SMC 1) asking whether there are amendments that the IPSASB needs to consider in future *Improvements to IPSASs* projects. Respondents 3, 8 and 14 made suggestions relating to potential future projects. Please refer to Appendix B for a list of topics, associated detail and comments.

26. Respondents 5, 6, 10, 13 and 15 explicitly stated that they have not identified any other amendments for consideration.

27. Two Respondents (4, and 10) commented on the fact that past improvements projects have been based on IASB improvements projects. Respondent 4 considers that where the IPSASB agrees not to include amendments from an *Improvements to IFRSs* Standard, an explanation should be included in the ED. Respondent 10 asks whether the Staff of the IPSASB could work together with the Staff of the IASB to identify and present items for improvements concurrently.

28. Additionally, Respondent 9 considers that the reasons for the proposed amendments should be clearly stated.

29. ED 45 was the first improvements project that did not include proposed amendments based on an underlying *Improvements to IFRSs* Standard. At its March 2011 meeting, the IPSASB considered the amendments in the *Improvements to IFRSs* Standard issued in May 2010. It concluded that none of the amendments were either relevant or appropriate at the present time. However, the table listing the amendments and the IPSASB's reasons for not including them in ED 45 was not included in the ED. Staff considers that, for future improvements projects, where an underlying IFRS is considered, the reasons for excluding the amendments should be included in the ED. Additionally, the reasons for all proposed amendments will be explained.

> *Question 4 for the IPSASB:*
>
> Does the IPSASB agree that the reasons for not including proposed amendments relating to *Improvements to IFRSs* should be included in future EDs and that reasons for all proposed amendments should be included?

Effective Date

30. Before the proposed improvements can be finalized, the effective date needs to be considered. For its 2010 *Improvements to IPSASs* project, the IPSASB issued this document in November 2010 with an effective date of annual periods beginning on or after January 1, 2012. Staff proposes to issue the finalized improvements IPSAS in September 2011, with an effective date of January 1, 2013.

> *Question 5 for the IPSASB:*
>
> Does the IPSASB agree with the proposed effective date of annual periods beginning on or after January 1, 2013?

Draft Standard, *Improvements to IPSASs 2011*

31. Agenda Paper 9.3 contains the draft Standard, *Improvements to IPSASs 2011*. It reflects Staffs proposals above and therefore does not include the proposed amendments in ED 45 relating to deleting paragraphs relating to lack of commercial substance in IPSAS 16 and IPSAS 17, and insertion of Objective paragraphs for IPSASs 6, 7 and 8. The draft Standard will be revised before being finalized, dependant on the IPSASB's decisions.

Question 6 for the IPSASB:

Does the IPSASB approve publication of *Improvements to IPSASs 2011*?

Appendix A: Extract from March 2011 Meeting Minutes

4. IMPROVEMENTS TO IPSASs AND CONVERENCE WITH IFRSs

Approve Exposure Draft (Agenda Item 4)

The IPSASB reviewed Exposure Draft (ED) 45, *Improvements to IPSASs 2011*.

The Staff proposed that the amendments in the IASB document, *Improvements to IFRSs*, issued in May 2010 are not currently relevant to IPSASs. Therefore there are no proposed amendments to IPSASs based on the IASB's amendments. A Member considered that the amendment to IAS 1, *Presentation of Financial Statements*, relating to a clarification on the statement of changes in equity could be proposed for amendment. Staff agreed to reconsider this amendment for inclusion in ED 45.

Part I of ED 45 proposes deletion of the Introduction section of each IPSAS that has one (i.e., 21 of 31 IPSASs). A Member suggested that it is unnecessary to include the text of the Introduction sections in ED 45 and instead to include a table listing the IPSASs affected and the relevant paragraph numbers. Additionally, a TA suggested that the reasoning behind proposing the deletion of the Introduction sections should be included in ED 45. Staff agreed to amend ED 45 to reflect these comments.

Part II of ED 45 proposes to add an Objective paragraph to those IPSAS which do not currently include an Objective paragraph (IPSASs 6–8 and 10). A Member suggested that the proposed Objective paragraph for IPSAS 6 should be expanded to include all the items that the Standard deals with. Staff agreed to amend this paragraph.

Part III of ED 45 proposes amendments to four IPSASs (IPSAS 16, 17, 19 and 21). The IPSASB agreed that these proposed amendments are appropriate for inclusion in ED 45.

A Member asked whether a process should be established to keep track of proposed amendments suggested by constituents as well as IPSASB Members, TAs and Observers. The Chairman responded that a "Specific Matter for Comment" could be included in ED 45 to ask constituents to make suggestions for future amendments.

A Technical Advisor (TA) suggested that one method of finding proposed amendments for the next improvements project is to review two or three standards in detail on a cyclical basis. Staff commented that if substantive issues arise from a review of a standard, then it would be beyond the scope of the improvements project because the improvements project relates to necessary, but non-substantive changes.

A Member asked whether the Tracking Table of IASB amendments that have not been considered by the IPSASB will be kept up-to-date. Staff responded that the Tracking Table has been updated for this meeting and will continue to be updated for each meeting. The updated document will be posted on the Internet.

Members noted that the IPSASB has previously agreed that a two-yearly cycle will be adopted for the improvements project after 2011. Therefore, the next improvements project will commence in 2013.

The IPSASB approved ED 45 for issuance. The IPSASB agreed that the exposure period for ED 45 will end on June 30, 2010.

The results of the vote were: In Favor 18; Against 0; Abstain 0. The voting details of the approval are at Appendix 2, item 11.2.

Appendix B: List of Potential Future Projects

R#	Topic	Comments
3	**Cash Reporting IPSAS** To provide for a smoother transition to the accrual IPSAS, we would like to see the cash statement broken out into the following categories: government activities, government business enterprises (GBE), and component units. Component units would be those units that are controlled entities requiring separate financial statements independent of other government activities. A consolidated whole-of-government cash statement would still be required. Separate reporting would permit the preparers to progressively implement the cash reporting standard for each category and would provide readers of the cash statement with better information on the liquidity of each category. We would prefer that this be a requirement in Part 1 but would accept it as an option in Part 2. **Presentation of Financial Statements (IPSAS 1)** i. Proposed breakout in #1 [Cash Reporting IPSAS] above should be carried forward to this IPSAS for each financial statement (i.e. Statement of Financial Position, Statement of Financial Performance, Cash Flow Statement, and Statement of Changes). This would provide the readers of each statement with better information on the efficiency of each category. ii. A new section should be added to require an Opening Statement of Financial Position (similar to IFRS 1). If a new section is not added, a separate IPSAS should be issued. **Cash Flow Statement (IPSAS 2)** Proposed breakout in #1 [Cash Reporting IPSAS] above should be carried forward to this IPSAS to identify the liquidity of each category. **Consolidated Statement (IPSAS 6)** The proposed breakout in #1 [Cash Reporting IPSAS] above should be consolidated into a whole-of-government report for each financial statement (i.e. Statement of Financial Position, Statement of Financial Performance, Cash Flow Statement, and Statement of Changes).	The proposal relating to the Cash Based IPSAS could be considered in the review of the Cash Basis IPSAS project that is a committed project but has not yet commenced. The proposals relating to IPSAS 1 (part i only) and IPSAS 2 could be considered when those standards are considered for revision. The proposal relating to IPSAS 1 (part ii) is being considered in the project on the *First-Time Adoption of IPSASs* which will commence later in 2011. The proposal relating to IPSAS 6 could be considered in the current project to revise IPSAS 6.
3	**Provisions (IPSAS 19)** The standard should specifically state unliquidated obligations that are "more likely than not to become a liability" should be recognized as a provision. The measurement and certainty of most unliquidated obligations are easier to measure (with more certainty) than most lawsuits. Currently, unliquidated obligations are reflected as contingent liabilities.	The IPSASB may consider the revision of IPSAS 19 once it has completed its Conceptual Framework project.
3	**Employer Retirement Plans (IPSAS 25)** There should be a standard on these retirement plans (similar to IAS 26) or they should be reflected as a separate section.	The IPSASB has not considered the applicability of IAS 26 to public sector

R#	Topic	Comments
		entities. It could do so at its next agenda setting session.
3	**Convergence with Statistical Reporting Systems** There should be an ongoing process of convergence with statistical standards where feasible, e.g. on nomenclature and definitions. For example GBEs as defined in IPSAS are effectively the same as Public Corporations as defined in GFS 2001. It would be a simple change for both documents to use the same name and the same definition.	The IPSASB has commenced a project on *Alignment of IPSASs and Public Sector Statistical Reporting Requirements*. This proposal could be considered in that project.
8	Objective of IPSAS 10 **Observation/Rationale** Whereas the standard provides for the treatment after hyperinflationary period (see extract below), there is no specific provision as to how to determine when the hyperinflation has ceased. **Suggestion** Other than presuming the opposite of conditions mentioned under paragraph 5, the IPSASB could consider specifying the indicators of the economy having ceased to be hyperinflationary. There is need for the Standard to provide for the appropriate treatment if the hyperinflation ends in the middle of the accounting period.	This proposal could be considered at the IPSASB's next agenda setting session.
8	Part III – General Improvements on IPSAS 16: Investment Property **Suggestion** Standard should include as Investment Property, Infrastructure and other administrative public resources run on a pay-per-use basis. Under this arrangement a nominal fee is paid on a usage basis. However, for a property to qualify as Investment Property under this arrangement, the fee paid should be towards recovery of either part or all of the property construction costs and not the following purposes: a. Accumulation of a property pool reserve fund. b. Repair and maintenance of the property. c. Servicing of a Government Debt/Borrowing Interest not directly related to this property. d. Tax revenue for budgetary funding.	This proposal could be considered at the IPSASB's next agenda setting session.
8	Part III – General improvements on IPSAS 17: Property, Plant, and Equipment **Suggestion** The standard should be extended to cover non-regenerative resources and/or rights to those resources, provided that such resources can be reliably quantified and/or measured. Example: Mineral rights, the exploration for and extraction of minerals, oil, natural gas. Exclude pay-per-use property recognised under IPSAS 16 –	This proposal could be considered at the IPSASB's next agenda setting session.

R#	Topic	Comments
	Investment Property; Extend meaning of Road Network infrastructure to include Road Drainage System, Road Lighting, Road Signs and Maintained Vegatation, which are not included in the Local Authorities Balance Sheet as Assets (*Para 21*). Since these auxilliary assets will have a useful life different from that of the underlying asset (the road network), they should be recognized as separate assets (*37 of the Standard*).	
14	The AASB would also like to bring to IPSASB's attention the work of the AASB in relation to the IASB's ED/2010/6 Revenue from Contracts with Customers. The AASB is developing proposals for accounting for income of not-for-profit entities based on the proposals in IASB ED/2010/6 (as modified for subsequent IASB decisions in its redeliberations of that ED), modified where necessary for not-for-profit specific issues. The AASB's tentative conclusion is that the IASB's revenue recognition model should only need limited modification. A key decision of the AASB is that the accounting for transactions involving income of Not-for-Profit entities should be determined by considering which financial statement elements arise, without being concerned with whether the transactions are 'exchange' or 'non-exchange' or combination of both.	The IPSASB will consider the IASB's project on revenue from contracts with customers as a potential agenda item once the IASB completes the project.

ED 45 RESPONDENTS' COMMENTS

Purpose:

This paper presents Staffs analysis of the comments received on ED 45, *Improvements to IPSASs 2011*.

List of Respondents:

Response #	Respondent Name	Function
1	Dr. Joseph S. Maresca (USA)	Other: Individual
2	Zambia Institute of Chartered Accountants	Member or Regional Body
3	The International Consortium on Governmental Financial Management (ICGFM) (International)	Other
4	Accounting Standards Board (South Africa)	Standard Setter/Standards Advisory Body
5	Comptroller's Office, Province of Manitoba (Canada)	Preparer
6	Conseil de Normalisation des Comptes Publics (CNOCP) (France)	Standard Setter/Standards Advisory Body
7	Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)	Member or Regional Body
8	Accountant General's Office, Ministry of Finance (Uganda)	Preparer
9	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
10	KPMG IFRG Limited (UK)	Accountancy Firm
11	Staff of Accounting Standards Board (UK)	Standard Setter/Standards Advisory Body
12	Denise Silva Ferreira Juvenal (Brazil)	Other: Individual
13	The Chartered Institute of Public Finance & Accountancy (CIPFA) (UK)	Member or Regional Body
14	Australian Accounting Standards Board (AASB) (Australia)	Standard Setter/Standards Advisory Body
15	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)	Preparer

Overall Comment—Supportive

R#	OVERALL COMMENT—SUPPORTIVE	PROPOSED RESPONSE
1	Changes to existing IPSAS documents include: IPSAS 16 delete references to exchange of assets lacking commercial substance as investment properties. IPSAS 17 Property, Plant, and Equipment (PPE) delete references to exchanges of assets which lack commercial substance as a PPE. IPSAS 19 - Contingent liabilities delete references to insurance entity and amend references to exclusion of financial instruments under IPSAS 29. IPSAS 21 proposed amendments IPSAS 26.25 (e) indicator of impairment when the asset useful life is reassessed as finite versus infinite. I concur.	Positive support for ED 45. Comment only, no action required.
2	The institute appreciates the IPSASB's efforts to update the IPSASs for annual improvements; this positive move will lead to significant improvements in financial reporting by the public sector. We agree with Exposure Draft 45, improvements which are proposed in this ED (i.e. deletion of the Introduction section for those IPSASs which have an introduction section, inserting objective paragraphs in those IPSASs which do not currently have an objective paragraph and general improvements to four IPSASs) are appropriate and should be reflected in the IPSASs as proposed.	
3	3. We agree with the proposal to eliminate the Introduction sections and to insert Objective sections, where appropriate. We also support the general improvements proposed for the four IPSAS (16, 17, 19, and 21).	
4	**Letter:** Overall we are supportive of the project as we believe it will enhance and improve the principles set out in the IPSASs.	
5	We agree with the general improvements to correct the inconsistencies between existing IPSASs. We are also in favour with any changes that allows for a consistent presentation between IPSAS. The introductions in existing IPSASs should be removed as they are non-authoritative and the key features are discussed in the Basis for Conclusion section. An objective section should be included in each IPSAS as the	

R#	OVERALL COMMENT—SUPPORTIVE	PROPOSED RESPONSE
	objective section explains the rationale for the standard.	
6	We note the IPSAS Board objectives to propose: • deletion of the Introduction section for those IPSASs which have an Introduction section (Part I); • to insert Objective paragraphs in those IPSASs which do not currently have an Objective paragraph (Part II); • general improvements to four IPSASs that relate to inconsistent references to standards, terminology and structure resulting from IPSASB's ongoing review of existing IPSASs (Part III). The CNOCP is pleased to note the positive approach of the IPSASB that consists to review and improve the existing IPSASs. The Council has no significant comment on the proposed amendments.	
7	As members of FEE (Federation of European Accountants), we have been involved in the preparation of the Comment Letter of this organization to the above referred Exposure Paper, and, in general terms, we agree with its comments.	
10	While supportive of the annual improvements, we have considered the specific matter for comments in the ED and have some comments on specific issues addressed in the ED.	
13	We agree with the proposals in Parts I, II and III of the ED. For completeness we would note that we are content with the proposed redrafts to IN paragraphs. We agree that these will not be needed if the Introductions are deleted as proposed in Part I.	
15	HoTARAC supports all proposals in this exposure draft, except for the proposed amendments to IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment* regarding exchanges of assets that lack commercial substance.	

Other Comments

R#	OTHER COMMENTS	PROPOSED RESPONSE
1	Background An entity that prepares and presents financial statements under the accrual basis shall apply this standard to primary financial statements including consolidated financial statements of any entity whose functional currency is that of a hyperinflation economy. Critique: Characteristics of the economic environment of a country which indicate the existence of hyperinflation include situations where: (1) Consumers prefer to keep wealth in non-monetary assets or in a stable foreign currency. i.e. Jersey Pound Amounts of local currency held are immediately invested to maintain purchasing power. (2) Consumers regard monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency. (3) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power. (4) Interest rates, wages, and prices may be linked to a price index. (5) The cumulative inflation rate over the intermediate term 1-3 years approaches, or even exceeds, 100% or more. Hyperinflation is high inflation or very high, rapid monetary inflation great enough to undermine a nation's economic stability. Hyperinflationary candidate countries at one time or another have included: Zimbabwe Democratic Republic of Congo Ethiopia Guinea Sao Tome and Principe There was severe hyperinflation in Zimbabwe while there was exchangeability with at least a relatively stable foreign currency like the British Pound. When exchangeability ceased, prices could not be set in the Zimbabwe currency and severe hyperinflation stopped. When there is no exchangeability, there can be no	Comment only, no action required.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	severe hyperinflation. Hyperinflation becomes visible when there is an unchecked increase in the money supply. For instance, hyperinflation in Zimbabwe was accompanied by a widespread reluctance on the part of the local citizenry to hold the hyperinflationary money. The reluctance to hold was for more than the time needed to trade it for non-monetary assets to avoid further erosion of real value. Hyperinflation is often associated with currency meltdowns, social upheavals, or aggressive currency manipulation usually by insiders or speculators.	
4	2. Other minor improvements that could be considered are as follows: **IPSAS 1 *Presentation of Financial Statements*** Paragraph .117 **Information to be presented either on the face of the statement of financial performance or in the notes** ..... *.117 When an entity provides a dividend or similar distribution to its owners, it shall disclose, either on the face of the statement of financial performance or in the statement of changes in net assets or in the notes, the amount<u>s</u> of dividends or similar distribution~~s~~, recognized as distribution to owners during the period, and the related amount <u>of dividends</u> per share (where the entity has share capital).*	This change will be considered for the next improvements project.
4	2. Other minor improvements that could be considered are as follows: … **IPSAS 9 *Revenue from Exchange Transactions*** **Definitions** **Revenue** 12. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as agent of the entity or on behalf of other third parties, for example, the collection of telephone and electricity payments by the post office on behalf of entities providing such services, are not economic benefits or service potential that flow to the entity and do not result in	These amendments have been included in *Improvements to IPSASs* issued in November 2010 and incorporated into the 2011 Handbook.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in ~~a custodial or~~ an agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.	
4	2. Other minor improvements that could be considered are as follows: … **IPSAS 13 *Leases*** Paragraphs .40 and .44 **Leases in the financial statements of lessees** **Finance leases** *.40 Lessees shall disclose the following for finance leases:* …..… *(f) A general description of the lessee's material leasing arrangements including, but not limited to, the following:* *(i) the basis on which contingent rent payable is determined;* *(ii) the existence and terms of renewal or purchase options and escalation clauses; and* *(iii) restrictions imposed by lease arrangements, such as those concerning return of ~~net~~ surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing; and* …..… **Operating leases** *.44 Lessees shall disclose the following for operating leases:* …….. *(d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:*	These amendments have been included in *Improvements to IPSASs* issued in November 2010 and incorporated into the 2011 Handbook.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	(i) the basis on which contingent rent payable is determined;~~,~~ *(ii) the existence and terms of renewal or purchase options and escalation clauses ~~,~~ and* *(iii) restrictions imposed by lease arrangements, such as those concerning return of ~~net~~ surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.*	
4	**OTHER MATTERS FOR COMMENT** **Part III** **IPSAS 17 *Property, Plant and Equipment*** A reference to IPSAS 26 should also be included in paragraph .22 **Initial costs** .22 Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets* or IPSAS 26 *Impairment of Cash-Generating Assets*, as appropriate.	This change will be considered for the next improvements project.
4	**OTHER MATTERS FOR COMMENT** **Part III** **…**	This proposed amendment arose because the IPSASB was in the process of finalizing IPSAS 21 when the IASB issued its revision to IAS 36. The IPSASB omitted this last minute amendment from

R#	OTHER COMMENTS	PROPOSED RESPONSE
	IPSAS 21 *Impairment of Non-Cash-Generating Assets* We support the proposed improvement to paragraph .27 but recommend that entities should be required to apply the proposed amendment prospectively.	IPSAS 21. On first-time adoption of IPSAS 21, paragraph 80 requires application of its requirements prospectively from the date of its application. The Respondent's suggestion to apply this amendment prospectively is consistent with IPSAS 21. **Agree to make this change.**
6	**APPENDIX 2** **Part I: Deletion of Introduction Paragraphs** The 'Conseil de normalisation des comptes publics' (CNOCP) agrees with the amendments proposed in the Part I of the Exposure Draft 45. Nota Bene: Concerning the IPSAS 12, « Inventories », the paragraphs to delete are the **IN1-IN14** paragraphs and not the IN1-IN13 paragraphs as mentioned page 9.	Respondent 11 also notes this editorial. **Agree to make the change.**
6	**APPENDIX 2** **Part III: General Improvements** ***IPSAS 21, Impairment of Non-Cash-Generating Assets*** The CNOCP agrees with the proposed amendment. Nota Bene: We note that the "long-term" condition is introduced in the paragraph 27(d) of the Standard for "significant changes". This condition is not mentioned in the paragraph 25(e) of IPSAS 26, *Impairment of Cash-Generating Assets*.	The omission of the words "long-term" from the underlying Standard, IAS 36, *Impairment of Assets* was a last minute amendment to the wording of the Standard before it was issued. The IPSASB was in the process of finalizing IPSAS 21 at the time and did not reflect the revised wording. This change, i.e., the removal of the words "long-term," will be considered for the next improvements project.
7	Nonetheless, we would like to emphasize the following matters which we consider of particular importance in our jurisdiction: **1.6-Scope of the paper:** our humble opinion is that the description of the items that the paper discusses is lagging some areas that we consider very relevant and that should be included/referred in this paper. Moreover, as other elements included in the paper, they are subject of different IPSAS standards, namely: • Presentation of financial statements in the public sector (IPSAS 1)	These comments are noted and will be taken into account when analyzing the responses to the *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* Exposure Draft.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	• Cash flow information (IPSAS 2). This could be referred either in the part referring to the financial statements or in the one referring to the Budget information, or in both. • Information of public sector investments in associates and joint ventures, also related to investment reporting (IPSAS 7, 8 and 16) • Disclosure of financial and non-financial information about the General Government sector (IPSAS 22). We consider this point of utmost importance and some reference should be made in the paper. Indeed, public services (and this related to point 2-Significance of non-exchange transactions) cannot be understood by the users of the information (Parliament, citizens, managers...) if there is not complete information (financial and performance information) on the services rendered. On this point the disclosure of information annexed to the financial statements is critical, to our view, and some references in the text should be further included. • Intangible assets (IPSAS 31). This part is also very relevant, and could be also included or referred explicitly in the paper. As part of this section some references could be made to the research activities financed by public sector that are becoming year by year a very important share of governments' budgets. **2.3. List of information that public users may need**: we believe that the list included in this point should be part of the introduction, although some point may be left under this part. **2.4 and following: Taxation and other non-exchange transactions**: reference to subsidies to public companies may be relevant under this part. **4. The nature of Property, Plant and Equipment**: also here, a reference to intangible assets, and other kind of public resources (resources devoted to research) may be mentioned. **9. Statistical bases of Accounting**: The heading for this part could already make reference on what is said later, meaning that the IPSAS and the statistical bases for reporting financial information have different objectives.	
8	Page 14 - <u>Title of IPSAS 10</u> **Observation/Rationale** Noted that the title only addresses the hyperinflationary periods and yet there is provision for the accounting treatment for the period after the hyperinflation (see	The proposed amendment to IPSAS 10 is to include a paragraph on the objective of the Standard rather than to change the title of the Standard. **No change is proposed.**

R#	OTHER COMMENTS	PROPOSED RESPONSE
	last sentence of the objective per exposure draft and paragraph 35 of the Standard). **Suggestion:** The title for IPSAS 10 as "*Financial Reporting in Hyperinflationary Economies and after cessation of hyperinflation"*.	
8	Page 14 - Objective of IPSAS 10 **Observation/Rationale** Noted unnecessary repetition of the phrase **"accounting**" in the objective below: The objective of this standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity in accounting for an entity whose functional currency is the currency of a hyperinflationary economy. **Suggestion:** The objective of this Standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity whose functional currency is the currency of a hyperinflationary economy.	**Agree to make the change.**
8	Part III – General improvements on Standard 21: Impairment of Non – Cash Generating Assets **Observation/Rationale** The objective does refer to Inventories (IPSAS 12) but does not include inventories that have been impaired, and have now been considered for conversion from Non – Cash Generating Assets to Cash Generating assets. Income will be generated from such assets for a foreseeable future. This is because some inventories or plant and equipment get converted to income generating activities after a while and a significant amount of income is obtainable for the foreseeable future. For example an area that has been completely been depleted of its minerals may be converted into a nature trail that does attract tourism. Environment Preservation should be considered. **Suggestion:** Amendment of paragraph 27 should include a clause which caters for inventory that has been converted from Non Cash Asset to Cash Asset. Inventory that has been converted from Non-Cash Generating Assets to Cash Generating Assets should be measured at their fair value at the time of completion	The scope of IPSAS 21 excludes items that are in the scope of IPSAS 12, *Inventories* (paragraph 2(a)). **No change is proposed.**

R#	OTHER COMMENTS	PROPOSED RESPONSE
	of the conversion process.	
9	**Standard 17, Property, Plant, and Equipment** The insertion with IPSAS 26 for the realisation of the impairment gave rise to a controversial discussion in the SRS-CSPCP, because in IPSAS 17 fixed assets, whose main purpose is not to generate a return, are covered. In special cases uncertainties could arise as to when and which valuation method is applicable. Otherwise we agree with the improvements to the standard.	Paragraphs 16–21 of IPSAS 21 and paragraphs 14–18 of IPSAS 26 contain guidance on how to determine whether an asset is a cash-generating or non-cash-generating and therefore which of the impairment Standards is applicable.
9	**Standard 19, Provisions Contingent Liabilities and Contingent Assets** The insertion of the example under Item IG 14 with IPSAS 29 gave rise to controversial discussion in the SRS-CSPCP. The question arises whether in the public sector there could not also be financial guarantees that would not fall under IPSAS 29. In this connection therefore the sector specific aspects should once again be reviewed. Otherwise we agree with the improvements to the standard.	A guarantee may meet the definition of a financial guarantee contract or an insurance contract and an entity applies IPSAS 29, *Financial Instruments: Recognition and Measurement* in recognizing and measuring this guarantee or applies the relevant international or national accounting standard dealing with insurance contracts if the entity elects to apply that standard in recognizing and measuring the guarantee. IPSAS 28, *Financial Instruments: Presentation*, paragraphs AG3–AG9 contain further guidance. This means that some financial guarantee contracts do not fall under IPSAS 29, even where they are similar to contracts issued in the private sector. It seems likely that financial guarantees that are public sector specific could also be outside the scope of IPSAS 29. The IPSASB has committed to a project to address the accounting treatment of public sector specific financial instruments. This project has not yet commenced.
10	**Part I: Deletion of Introduction Paragraphs** We fully concur with the IPSASB that the IPSASs should be presented consistently. Moreover, the IPSASB is correct in stating that the contents of the Introduction Paragraphs (summary of rationale for and contents of the standard; key features of the standard; significant changes from previous requirements) are already stated elsewhere in each standard.	The IPSASB's rationale for proposing deletion of the Introductions is as follows. The Introduction is non-authoritative guidance. The current suite of IPSASs does not include an Introduction in each IPSAS. The scope and style of Introductions varies considerably between IPSASs.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	However, we disagree with the proposal to delete the Introduction Paragraphs. It is useful to users of the standards to have this information in a single place, where it can be easily read. The standards are long and it is not always easy to find the information required. Moreover, whilst it is correct that "Introductions are non-authoritative and users should refer to the detailed requirements of the Standard", this does not mean that Introductions lack value. Without an introductory summary, users may find it more difficult to identify the existence of important issues in a Standard or understand the context of the changes proposed in updated standards. IFRSs have introductions and we and other users find these helpful. It seems inconsistent to remove them from IPSASs. We therefore recommend that this Part be revised. 1 Rather than delete the introductions from the 21 IPSASs that have them, they should be added to the 10 IPSASs that lack them. 2 A standard format should be developed for the introductions and existing introductions should be amended where necessary.	The most common approach is that the Introduction deals with: • The rationale for issuing the IPSAS is summarized, however, the IPSASB has a process established for determining which projects to undertake, which documents the reasons for undertaking the project. This rationale is, therefore, redundant. Further, the rationale for issuing the IPSAS ought to be clear from the Objective • The content of the Standard is summarized. It is not necessary to include a summary and indeed, doing so may undermine the Standard itself if users do not refer to the detailed requirements of the Standard. • The key features of the IPSAS are described. In some cases, this duplicates material in the Basis for Conclusions. • Significant changes from previous requirements are also described. These should be addressed, together with the rationale for such changes, in the Basis for Conclusions. It is noted that this is a difference between IFRSs and IPSASs. Respondent 10 is the only respondent to disagree with the proposal to delete the Introduction paragraphs from the Standards that have them. Eleven respondents explicitly agreed with either the proposals in ED 45 generally or specifically with the proposal to delete the Introduction paragraphs and three Respondents (1, 12 and 14) were silent. Respondent 11 (see below) agreed but included a proviso.

R#	OTHER COMMENTS	PROPOSED RESPONSE
		No change is proposed.
10	**Part II: Insertion of Objective Paragraphs** We fully support the IPSASB's intention of adding these paragraphs, which will assist preparers and users of IPSASs. We have the following comments concerning two of the specific proposals: • IPSAS 6, *Consolidated and Separate Financial Statements* – This should be amended to include separate as well as consolidated financial statements. The following suggested draft is based on paragraph IN4 of the Introduction to IAS 27, *Consolidated and Separate Financial Statements* (i.e. the 2008 standard **before** it was amended earlier this year): The objective of this Standard is to enhance the relevance, reliability and comparability of the information that a controlling entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. This Standard also prescribes the accounting requirements for controlled entities, jointly controlled entities, and associates when an entity presents separate financial statements. • IPSAS 7, *Investments in Associates* – This should be amended to include recognition of investments in associates, which is an important part of the standard. We suggest the following draft (additions and changes highlighted): The objective of this Standard is to prescribe the recognition by an investor of an investment in an associate and the accounting treatment ~~for~~ by an investor in accounting for such investments ~~in associates~~ in its consolidated financial statements and separate financial statements (where prepared).	See Agenda Paper 9.0, paragraph 24.
10	**Part III: General Improvements:** … Apart from that [the proposed deletion of guidance on transactions that lack commercial substance – see separate table below], the changes in Part III seem reasonable and we are happy to support them. We have one comment on details, as follows. • IPSAS 19: The new paragraph 1(d) would exclude from the scope of the standard "Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts". This replaces	This comment is noted. Where the IPSASB does not have a standard on a specific topic, it directs the reader to the relevant international or national accounting standard dealing with that topic. It is acknowledged that the accounting treatment between different jurisdictions could vary significantly. However, the IPSASB has deferred its consideration of the applicability of IFRS 4 to public sector entities until the IASB issues a comprehensive standard on this topic.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	the exclusion "Those provisions, contingent liabilities and contingent assets arising in insurance entities from contracts with policyholders". This change follows IFRS, where IAS 37 excludes "insurance contracts (see IFRS 4 *Insurance Contracts*)"; however, there is a significant difference in that IFRS refers to the international standard set by the IASB, whilst this ED includes national standards. There is therefore a risk that practical application will vary significantly from one country to another. Whilst recognizing that the proposed draft is an ideal to aim at, we therefore suggest that this change be deferred until there is an IPSAS on Insurance Contracts.	**The proposed amendment in ED 45 goes ahead.**
11	3. We further agree with the deletion of the Introduction Paragraphs from the standards outlined in the ED, but only if the addition of the objective paragraphs (see above) proceeds. On an editorial matter, we note that the relevant paragraphs in IPSAS 12 *Inventories* are IN1-IN14 and not IN1-IN13 as indicated in the ED.	The proviso that the Introduction paragraphs only be deleted where the objective paragraphs are inserted is dealt with in Agenda Paper 9.0, paragraph 22. Respondent 6 also notes this editorial. **Agree to make the change.**
11	*Use of the term 'revenue'* 8. We further disagree with the deletion of the final sentence in paragraph 83 of IPSAS 17. Whilst we aware that IPSASs use the term 'revenue' in a broader sense than the IASB, we commented in our response to the Consultation Paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* that 'revenue' is commonly used to refer to inflows from ordinary activities (as by the IASB). 9. Because the IPSAS definition of revenue refers to 'gross' inflows, we consider that deletion of this sentence may result in the gross amount received on the sale of an asset being recognised in revenue, which is essentially the amount which reflects the 'turnover' or 'sales' in the private sector. We consider this could be misleading for users of the accounts as these may not be part of the operations of the entity and therefore they should not be portrayed as such. 10. If the amendment were to proceed, consequential amendments to IAS 1	This comment is noted. Once the IPSASB has completed its Conceptual Framework project, it will consider the implications for its standards. **The proposed amendment in ED 45 goes ahead.**

R#	OTHER COMMENTS	PROPOSED RESPONSE
	Presentation of Financial Statements (including perhaps the examples) would be desirable to ensure consistency of the treatments adopted in practice.	
13	**Letter** We note that the IPSASB has a project to update IPSASs 6-8 as part of its maintenance programme for IPSASs. This will among other matters consider issues raised by the IASB's recently issued or revised IAS 27-28 and IFRS 10-12. The revised IASB standards include objectives which are clearer and better aligned with IASB terminology used in more recently updated standards, and similar drafting changes to the objectives of IPSAS 6-8 may be appropriate as part of the IPSASB project. More minor drafting comments on the objectives of IPSAS 7 and IPSAS 8 are attached as an Annex. **Annex A** **Objective for IPSAS 7** The ED proposes: *The objective of this Standard is to prescribe the accounting treatment for an investor in accounting for investments in associates in its consolidated financial statements and separate financial statements (where prepared).* The sub-sentence "the accounting treatment for an investor in accounting for investments" is duplicative, and may also give the incorrect impression that the 'investor' is a person rather than an entity. A clearer explanation would be *The objective of this Standard is to prescribe, for an entity which is an investor, the accounting treatment for investments in associates in its consolidated financial statements and separate financial statements (where prepared).* **Objective for IPSAS 8** The ED proposes: *The objective of this Standard is to prescribe the accounting treatment for a venturer in accounting for interests in joint ventures in its consolidated financial statements and separate financial statements (where prepared).* The sub-sentence "the accounting treatment for a venturer in accounting for interests in joint ventures" is duplicative, and may also give the incorrect	See Agenda Paper 9.0, paragraphs 18–24.

R#	OTHER COMMENTS	PROPOSED RESPONSE
	impression that the 'venturer' is a person rather than an entity. A clearer explanation would be *The objective of this Standard is to prescribe, for an entity which is a venturer, the accounting treatment for interests in joint ventures in its consolidated financial statements and separate financial statements (where prepared)*	

Comments Relating to Potential Future Projects

R#	COMMENTS RELATING TO POTENTIAL FUTURE PROJECTS	PROPOSED RESPONSE
4	The International Accounting Standards Board (IASB) undertakes an annual revision of International Financial Reporting Standards (IFRSs) called Improvements to IFRSs. These improvements should also be considered by the IPSASB as part of its annual improvements to IPSASs. If the IPSASB agrees not to include certain improvements, it would be useful to explain the exclusion of such improvements in the exposure draft dealing with improvements to IPSASs. For example, the 2010 Improvements to IFRSs made amendments to IAS 1 *Presentation of Financial Statements* and IFRS 7 *Financial Instruments: Disclosures* which were not included in IPSAS 1 and IPSAS 30. The reason for not considering these improvements as part of the improvements to IPSASs were however not highlighted or explained in ED 45, which does question the reason why IPSAS 1 and IPSAS 30 are different to the IFRS equivalents.	See Agenda Paper 9.0, paragraphs 25–29.
9	**2.3 Part III: General Improvements** The Exposure Draft does not clearly state why the improvements have been made. Are they based on updates to IFRS or do they concern peculiarities of the public sector? What is the thinking behind them? Without this information it was difficult to assess the improvements. For future improvements the corresponding background information should therefore be included in the Exposure Draft to facilitate assessment.	
10	We recognize the need for a regular review of International Public Sector Accounting Standards ('IPSASs') and support the concept of an annual improvements project. We note that the 2011 annual improvements are not based on the latest annual improvements to International Financial Reporting Standards ('IFRSs') introduced by	

R#	COMMENTS RELATING TO POTENTIAL FUTURE PROJECTS	PROPOSED RESPONSE
	the International Accounting Standards Board ('IASB'), unlike the annual improvements made in previous years. Whilst automatic copying of IASB exercises is not needed, this does mean there is a risk that IFRSs and IPSASs will diverge. … We have not identified specific amendments. However, we would request the IPSASB to review the methodology of such exercises. In particular we note that, in the past, the IPSASB's Improvements project has been based on the previous year's project of the IASB – in other words the IPSAS have been lagging behind their IFRS equivalents by a year. We would therefore ask whether there is scope for IPSASB and IASB Technical Staff to work together to identify and present items for improvements concurrently, so that IPSAS updates are more timely.	
12	I agree with this proposal that in relation the amendments that the IPSASB needs to consider in future, I think that in this case is very important included very modifications with high quality of analysis of procedures and the observation with clearly and transparency included the possible impacts for public audit for entities in your application. But, I observed that if IFAC-IPSAS will be make what for more practice for control, I don't know if it possible because the considerations for IPSAS is complexity.	This comment is noted.

Key Issue—Lack of Commercial Substance

R#	LACK OF COMMERCIAL SUBSTANCE	PROPOSED RESPONSE
10	We disagree with the proposal to delete the references in IPSAS 16 and 17 to exchanges of assets which lack commercial substance. We note the reference to non-exchange transactions in paragraph 27 of each Standard. However, paragraphs 8-10 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, makes it clear that non-exchange transactions are defined as transactions which do **not** involve exchanges of approximately equal value. We also note that there is diversity in practice in how exchange and non-exchange transactions are determined. Accordingly we consider there is a risk that some transactions may not be caught under either IPSAS 16 or 17, on the one hand, or IPSAS 23, on the	See Agenda Paper 9.0, paragraphs 6–17.

R#	LACK OF COMMERCIAL SUBSTANCE	PROPOSED RESPONSE
	other. In addition, some transactions executed by public sector entities involve exchanges of assets with approximately equal value which result in little or no change in the economic status of either entity (i.e. they lack commercial substance as defined in IPSAS 16 or 17 as there is no change in the configuration risk of the associated cash flows, nor in the entity specific values). Two examples are: 1 Exchanges of parcels of land between an urban public sector agency and a developer, enabling the agency to obtain land in a blighted area in order to redevelop it; or 2 Exchanges of artefacts between museums. In our opinion, these types of transactions lack commercial substance but do not meet the definition of a non-exchange transaction as specified in paragraph 27 of IPSAS 16 and 17 and in IPSAS 23 and, therefore, deleting these references in IPSAS 16 and 17 would leave no clear guidance as to how these transactions should be accounted for. We therefore recommend that these references are not deleted.	
11	*Transactions that lack commercial substance* 4. We disagree with the removal of the reference to exchange transactions that lack commercial substance in IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant, and Equipment*. Removing this reference may result in entities that carry assets at cost who decide to swap 'like' assets having to revalue those assets and report a gain although in substance nothing has changed regarding their cash flows and/or service potential. 5. We note that this would be a departure from IFRS requirements in IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property* for no convincing reason. In our view, it is not relevant that the standards contain requirements for non-exchange transactions. Exchanges which lack commercial substance are not non-exchange transactions – rather they are not treated as transactions <u>at all</u>. 6. We also do not consider that the rationale provided in ED 45 that 'The equivalent paragraphs in IPSAS 31, *Intangible Assets* were omitted when IPSAS 31 was developed' to be a persuasive argument to make this amendment because we note that IAS 38 *Intangible Assets* also makes reference to transactions which lack commercial substance in the same way	

R#	LACK OF COMMERCIAL SUBSTANCE	PROPOSED RESPONSE
	as IAS 16 and IAS 40. 7. In contrast, we consider the IASB's Basis for Conclusions paragraph BC 18 to IAS 16 does provide compelling arguments why exchange transactions without commercial substance should not be measured at fair value. These are as follows: a. gains should not be recognised on exchanges of assets unless the exchanges represent the culmination of an earnings process; b. exchanges of assets of a similar nature and value are not a substantive event warranting the recognition of gains; and c. requiring or permitting the recognition of gains from such exchanges enables entities to 'manufacture' gains by attributing inflated values to the assets exchanged, if the assets do not have observable market prices in active markets.	
14	The AASB is particularly concerned about the proposal to remove references to 'exchanges of assets which lack commercial substance' and the related guidance from IPSAS 16 *Investment Properties* and IPSAS 17 *Property Plant and Equipment*. The rationale given seems to imply that exchange transactions which lack commercial substance are non-exchange transactions. The AASB notes that it is not necessarily the case that 'exchanges of assets which lack commercial substance' are non-exchange transactions, and there is no public sector specific reason to make such a presumption. In support of this view, the AASB also notes that the IASB's rationale for including requirements relating to exchanges that lack commercial substance, provided in paragraph BC18 of IAS 16 *Property Plant and Equipment*, is relevant in a public sector context. The IASB's rationale can be summarised as follows: • gains should not be recognised on exchanges of assets unless the exchanges represent the culmination of an earning process; • exchanges of assets of a similar nature and value are not a substantive event warranting the recognition of gains; and • requiring or permitting the recognition of gains from such exchanges would inappropriately enable entities to 'manufacture' gains by attributing inflated values to the assets exchanged, if the assets do not have observable market prices in active markets.	

R#	LACK OF COMMERCIAL SUBSTANCE	PROPOSED RESPONSE
	Accordingly, the AASB recommends that the IPSASB retains the references to exchange transactions that lack commercial substance and the related 'commercial substance' test. However, the AASB acknowledges that the IPSAS 16 and IPSAS 17 references to 'exchange transactions' in the context of the discussion about exchanges of assets that lack commercial substance, relative to the references to 'non-exchange transactions' elsewhere in those IPSASs, has the potential to be unclear. The AASB thinks this lack of clarity could be resolved by IPSASB clarifying or re-expressing the references to 'exchange transactions' or 'non-exchange transactions' when used in the context of exchanges of assets that lack commercial substance. For example, consideration could be given to the phrase 'a transaction involving the swapping of an item of property, plant and equipment for a non-monetary asset that lacks commercial substance'.	
15	**Proposed deletions from IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* regarding exchanges of assets that lack commercial substance** HoTARAC does not support – • for IPSAS 16 - the proposed deletions affecting paragraphs 36 and 37, and consequential new paragraphs 101B and in the "Comparison with IAS 40" section; and • for IPSAS 17 - the proposed deletions affecting paragraphs 38 and 39, the consequential new paragraph for the "Comparison with IAS 16" section, and associated references in the proposed new paragraph 107C. (HoTARAC notes that the IPSASB also proposes deletion of paragraph IN10 of IPSAS 16, and paragraphs IN5 and IN9 of IPSAS 17. Consistent with HoTARAC's views on Part I of ED 45, HoTARAC supports the deletion of these introductory paragraphs from IPSAS 16 and IPSAS 17). The proposed new paragraphs for the Comparison with IAS pages in IPSAS 16 and IPSAS 17 inappropriately imply that "exchange transactions lacking commercial substance" and "non-exchange transactions" relate to the same type of transactions. Paragraph 37 of IPSAS 16 describes the circumstances in which an exchange transaction would have commercial substance. If a transaction does not meet any of those circumstances, it is reasonable to conclude the transaction lacks commercial substance. However, a transaction lacking commercial substance does not equate to a	

R#	LACK OF COMMERCIAL SUBSTANCE	PROPOSED RESPONSE
	"non-exchange transaction" as defined in paragraph 11 of IPSAS 9 *Revenue from Exchange Transactions*. The following examples illustrate situations where an exchange transaction lacks commercial substance and a non-exchange transaction has commercial substance. *Example 1* Department A and Department B swap similar motor vehicles of equivalent value (i.e. an exchange transaction). However, as each department uses the motor vehicles for similar purposes, the configuration of each department's cash flows and "value" of the related operations are not materially impacted. In terms of the explanation of "commercial substance", this exchange transaction (in the context of exchange vs non-exchange transactions as defined in IPSAS 9) lacks commercial substance. *Example 2* Department A receives a parcel of land from Department B for no consideration (i.e. through a non-exchange transaction). Due to the increased service potential now available to Department A, the risk, timing and amount of its cash flows is significantly increased. In terms of the explanation of "commercial substance", this non-exchange transaction has commercial substance. Consequently, as IPSASs need to cater for a wide range of public sector transactions entered into by various types of public sector entities globally, HoTARAC strongly recommends that the IPSASB does not proceed with those amendments (identified earlier in this attachment) that are not supported by HoTARAC. In addition to the technical concerns explained above, the amendments referred to in the preceding paragraph would have the effect of departing from requirements in corresponding standards issued by the International Accounting Standards Board (i.e. IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*). In terms of the IPSASB's assessment of public sector issues that warrant divergence from IASB requirements, as outlined in the IPSASB's "Process for Reviewing and Modifying IASB Documents", HoTARAC does not believe the exposure draft justifies such a departure for public sector entities. As indicated in HoTARAC's recent responses on the various Conceptual Framework documents issued for comment, HoTARAC's preference is that the IPSASB and IASB work more closely to achieve convergence of their respective pronouncements.	

International Public Sector Accounting Standards Board

September 2011

Improvements to IPSASs 2011

International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

These Improvements to International Public Sector Accounting Standards were prepared by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC). The objective of the IPSASB is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. This will enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public sector financial management. This publication may be downloaded free-of-charge from the IFAC website: www.ifac.org. The approved text is published in the English language. The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

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IMPROVEMENTS TO IPSASs 2011

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IPSASs Addressed

Part I: Deletion of Introduction Paragraphs

1. Part I deletes the Introduction section of each IPSAS which has one, i.e., 21 of 31 IPSASs.

Part II: General Improvements

2. Part II contains amendments that relate to the following IPSASs for the reasons set out below.

Standard	*Proposed Change*
IPSAS 10, *Financial Reporting in Hyperinflationary Economies*	Amended to insert an Objective paragraph.
IPSAS 17, *Property, Plant, and Equipment*	Amended to include reference to IPSAS 26, *Impairment of Cash-Generating Assets*, where appropriate.
	Amended to delete the final sentence in paragraph 83. The IPSASB use the term "revenue" in a broader sense than the IASB. The IPSASB's definition of revenue includes income and gains.
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*	Amended to delete reference to insurance entities and to amend references to the exclusion of financial instruments within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement* from IPSAS 19. Amended IG14 to update the example of a single guarantee to refer to IPSAS 29 which deals with financial guarantee contracts.
IPSAS 21, *Impairment of Non-Cash-Generating Assets*	Amended to include another indicator of impairment – where an asset's useful life has been reassessed as finite rather than indefinite.

PART I: DELETION OF INTRODUCTION

The amendments in Part I shall be applied for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged.

Part I: Deletion of Introduction	**Paragraph Numbers to be deleted**
IPSAS 1, *Presentation of Financial Statements*	IN1–IN23
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	IN1–IN20
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*	IN1–IN6
IPSAS 6, *Consolidated and Separate Financial Statements*	IN1–IN19
IPSAS 7, *Investments in Associates*	IN1–IN18
IPSAS 8, *Interests in Joint Ventures*	IN1–IN17
IPSAS 12, *Inventories*	IN1–IN14
IPSAS 13, *Leases*	IN1–IN11
IPSAS 14, *Events After the Reporting Date*	IN1–IN6
IPSAS 16, *Investment Property*	IN1–IN12
IPSAS 17, *Property, Plant, and Equipment*	IN1–IN17
IPSAS 22, *Disclosure of Financial Information about the General Government Sector*	IN1–IN8
IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*	IN1–IN5
IPSAS 24, *Presentation of Budget Information in Financial Statements*	IN1–IN9
IPSAS 25, *Employee Benefits*	IN1–IN11
IPSAS 26, *Impairment of Cash-Generating Assets*	IN1–IN14
IPSAS 27, *Agriculture*	IN1–IN6
IPSAS 28, *Financial Instruments: Presentation*	IN1–IN19
IPSAS 29, *Financial Instruments: Recognition and Measurement*	IN1–IN15
IPSAS 30, *Financial Instruments: Disclosures*	IN1–IN8
IPSAS 31, *Intangible Assets*	IN1–IN4

PART II: GENERAL IMPROVEMENTS

Amendments to International Public Sector Accounting Standard 10, *Financial Reporting in Hyperinflationary Economies*

A new paragraph 1 is inserted and existing paragraph 1 is renumbered to 1A (new text is underlined).

Objective

1. The objective of this Standard is to prescribe the accounting treatment in the consolidated and individual financial statements of an entity whose functional currency is the currency of a hyperinflationary economy. The Standard also specifies the accounting treatment where the economy ceases to be hyperinflationary.

Scope

1A. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to the primary financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

Effective Date

38B. **Existing paragraph 1 was renumbered to 1A and a new paragraph 1 was inserted by *Improvements to IPSASs 2011* issued in September 2011. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

Amendments to International Public Sector Accounting Standard 17, *Property, Plant, and Equipment*

Paragraphs 79, 81, 83, 88 and 93 are amended (new text is underlined and deleted text is struck through) and paragraph 107C is inserted.

Measurement at Recognition

…

Impairment

79. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. ~~That Standard explains~~These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

…

81. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

    (a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

Derecognition

…

83. **The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback). ~~Gains shall not be classified as revenue.~~**

Disclosure

88. **The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:**

    …

    (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

…

(iv) **Increases or decreases resulting from revaluations under paragraphs 44, 54, and 55 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

...

93. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 88(e)(iv)–(vi).

Effective Date

107C. **Paragraph 79, 81, 83, 88 and 93 were amended by *Improvements to IPSASs 2011* issued in September 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2013, it shall disclose that fact.**

Amendments to International Public Sector Accounting Standard 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 1 and 4 are amended (new text is underlined and deleted text is struck through). Paragraph 5 is deleted and paragraph 111A is inserted.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**

   (a) **Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits;**

   (b) [Deleted]~~**Those resulting from financial instruments that are carried at fair value;**~~

   (c) **Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;**

   (d) **Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts**~~**Those arising in insurance entities from contracts with policyholders;**~~

   …

4. This Standard does not apply ~~applies~~ to financial instruments (including guarantees) that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement* ~~not carried at fair value~~.

5. [Deleted]~~This Standard applies to provisions, contingent liabilities, and contingent assets of insurance entities other than those arising from contracts with policyholders.~~

Effective Date

111A. **Paragraph 5 was deleted and paragraphs 1 and 4 were amended by *Improvements to IPSASs 2011* issued in September 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**

Implementation Guidance

…

A Single Guarantee

IG14. During 2004, a provincial government gives a guarantee of certain borrowings of a private sector operator providing public services for a fee, whose financial condition at that time is sound. During 2005, the financial condition of the operator deteriorates and, at June 30, 2005, the operator files for protection from its creditors.

This contract meets the definition of a financial guarantee contract in IPSAS 29, except those where the issuer elects to treat such contracts as insurance contracts in accordance with the relevant international or national accounting standard dealing with insurance contracts. The following is an example of an accounting policy that complies with the requirements in IPSAS 29 for financial guarantee contracts within the scope of IPSAS 29.

Analysis

(a) At December 31, 2004

…

Conclusion

The guarantee is recognized at fair value. ~~No provision is recognized (see paragraphs 22 and 31). The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (see paragraphs 100 and 109).~~

Analysis

(a) At December 31, 2005

Conclusion

The guarantee is subsequently measured at the higher of (a) ~~A provision is recognized for~~ the best estimate of the obligation (see paragraphs 22, 31 and 109), and (b) the amount initially recognized less, when appropriate, cumulative amortization in accordance with IPSAS 9, *Revenue from Exchange Transactions*.

~~Note: This example deals with a single guarantee. If an entity has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefits or service potential is probable (see paragraph 32). Where an entity gives guarantees in exchange for a fee, revenue is recognized under IPSAS 9, Revenue from Exchange Transactions.~~

Amendments to International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 27 is amended (new text is underlined and deleted text is struck through). Paragraph 82B is inserted.

Identifying an Asset that may be Impaired

…

27. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

…

Internal sources of information

…

(d) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, ~~or~~ plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;**

…

Transitional Provisions

80A. **The amendment to paragraph 27 shall be applied prospectively from the date of its application.**

Effective Date

82B. **Paragraph 27 was amended by *Improvements to IPSASs 2011* issued in September 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2013, it shall disclose that fact.**



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OVERVIEW OF RESPONSES – BY GEOGRAPHIC LOCATION, FUNCTION AND LANGUAGE

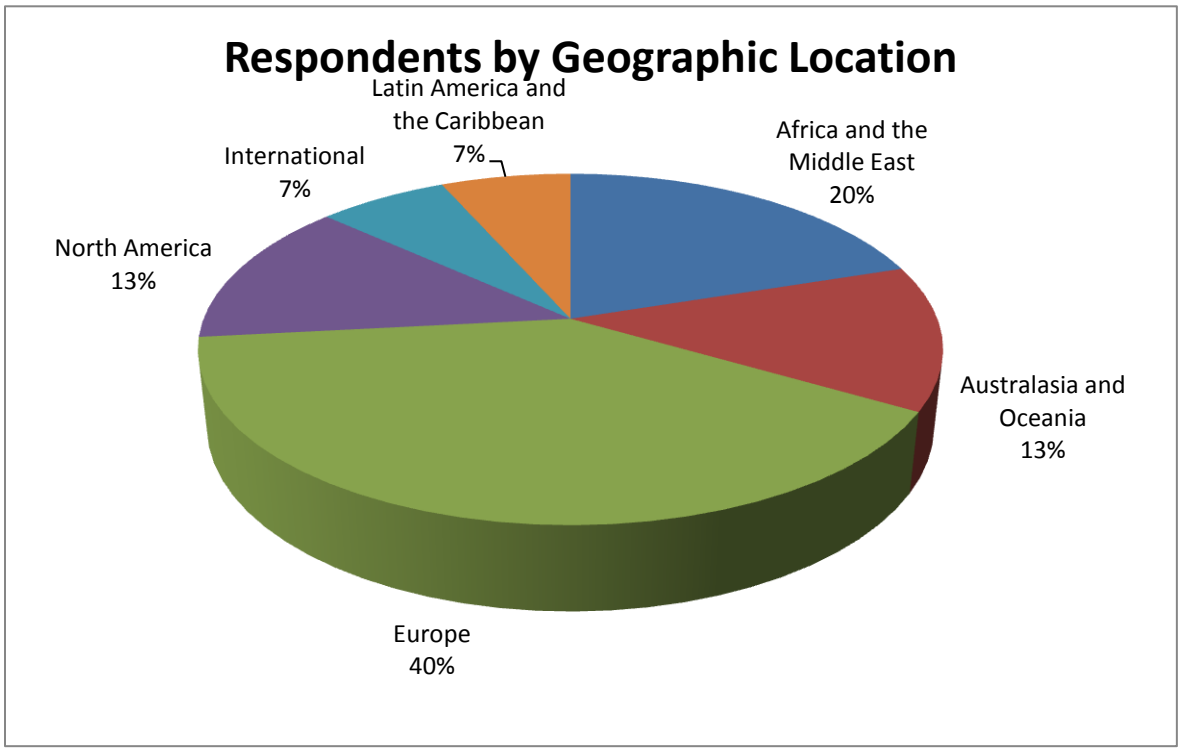
1	Dr. Joseph S. Maresca (USA)	Other: Individual
2	Zambia Institute of Chartered Accountants	Member or Regional Body
3	The International Consortium on Governmental Financial Management (ICGFM) (International)	Other
4	Accounting Standards Board (South Africa)	Standard Setter/Standards Advisory Body
5	Comptroller's Office, Province of Manitoba (Canada)	Preparer
6	Conseil de Normalisation des Comptes Publics (CNOCP) (France)	Standard Setter/Standards Advisory Body
7	Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spain)	Member or Regional Body
8	Accountant General's Office, Ministry of Finance (Uganda)	Preparer
9	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
10	KPMG IFRG Limited (UK)	Accountancy Firm
11	Staff of Accounting Standards Board (UK)	Standard Setter/Standards Advisory Body
12	Denise Silva Ferreira Juvenal (Brazil)	Other: Individual
13	The Chartered Institute of Public Finance & Accountancy (CIPFA) (UK)	Member or Regional Body
14	Australian Accounting Standards Board (AASB) (Australia)	Standard Setter/Standards Advisory Body
15	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)	Preparer

Purpose of this Paper:

To provide a profile of respondents in the standard format adopted by IPSASB staff.

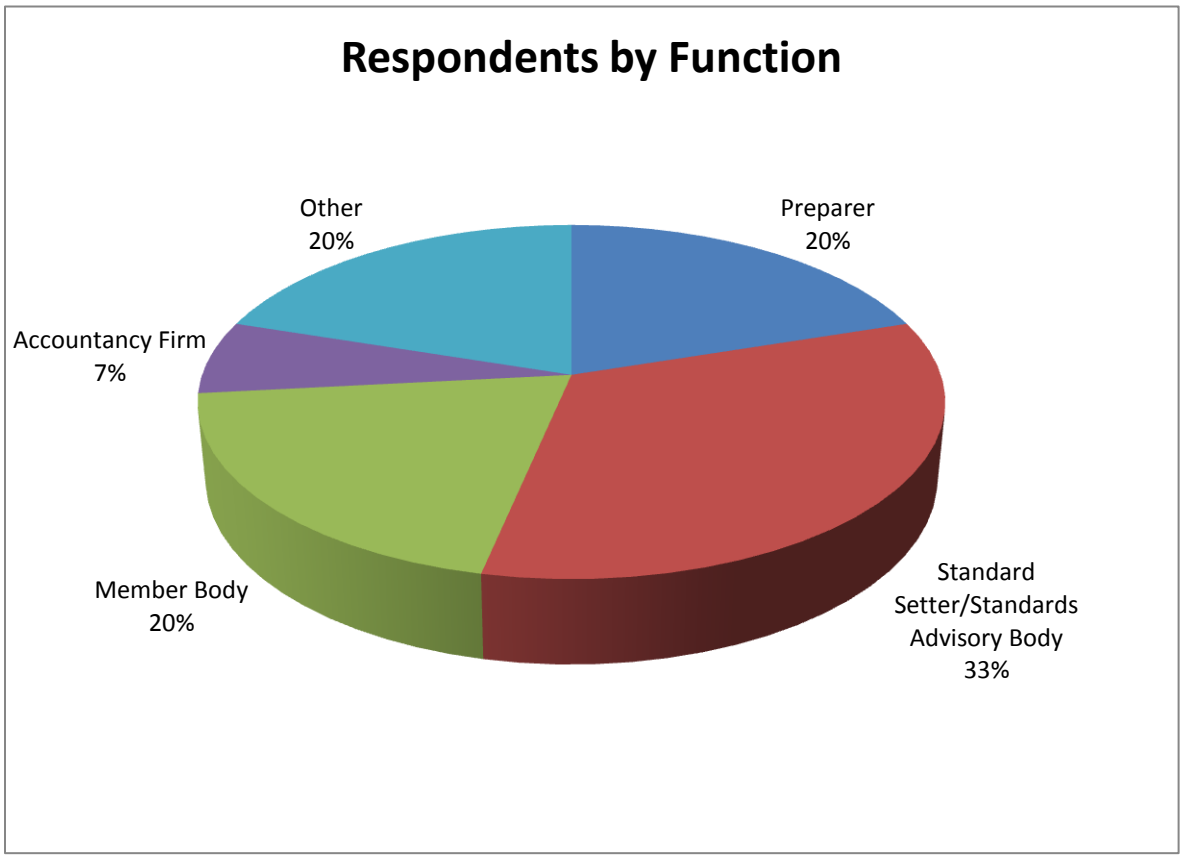
Geographic Breakdown:

Location	Response number	Total
Africa and the Middle East	2,4,8	3
Asia		
Australasia and Oceania	14,15	2
Europe	6,7,9,10,11,13	6
Latin America and the Caribbean	12	1
North America	1,5	2
International	3	1
Total		**15**



Functional Breakdown:

Function	Response Number	Total
Preparer (Ministry of Finance or similar)	5,8,15	3
Audit Office		
Standard Setter/Standards Advisory Body	4,6,9,11,14	5
Member Body (National or Regional)	2,7,13	3
Accountancy Firm	10	1
Other (Academic/individual)	1,3,12	3
Total		**15**



Linguistic Breakdown:

Language	Response #s	Total
Native language is English	1,4,5,10,11,13,14,15	8
Native language is not English	2,6,7,8,9,12	6
Combination	3*	1
Total		**15**

* International organization

