

IMPROVEMENTS

IPSASB Meeting – September 2023

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AGENDA

- 1. Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants**
- 2. Definition of Material**
- 3. Interest Rate Benchmark Reform—Phase 2**
- 4. Lease Liability in a Sale and Leaseback**
- 5. Approval of ED 85, *Improvements to IPSAS, 2023***

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Part 1 of [draft] ED 85)

Analysis

Nature of Amendments?

- Removal of apparent contraction in IAS 1 between ‘unconditional right’ and ‘expects, and has the discretion, to refinance or roll over an obligation.
- Clarifies the interpretation of ‘settlement’ when determining whether the liability is classified as non-current:
 - Liability rolled over under an existing loan facility is not a settlement
 - Existence of a right to defer settlement if it complies with covenants at the reporting date.

IAS and IPSAS alignment?

- IAS 1 paragraphs also exist in IPSAS 1 and are aligned.

Amendments applicable to the public sector?

- Same characteristics to determine current/non-current liabilities
- Removal of apparent contradiction => existence of a right

Recommendation

- Clarify the criterion in IPSAS 1 for classifying a liability as non-current (i.e., the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period).

Definition of Material (Parts 2, 3, 4, and 5 of [draft] ED 85)

Analysis

Nature of Amendments?

- Description of materiality threshold
- Consideration of immaterial information in the definition.
- The term ‘users’ is too broad and implies an entity is required to consider all possible users of its financial statements when deciding what information to disclose.

IAS and IPSAS alignment?

- IAS 1 and IAS 8 paragraphs also exist in IPSAS 1 and IPSAS 3 and are aligned. Consequential amendments: IAS 37/IPSAS 19 (Part 4 of [draft] ED 85) and IAS10/IPSAS 14 (Part 5 of [draft] ED 85).

Amendments applicable to the public sector?

- Removal of the same inconsistencies and added clarifications in IPSAS are relevant for public sector entities to apply consistently
- Consistency between the IPSASB Conceptual Framework and IPSAS

Recommendation

- Clarify the definition of material in IPSAS 1;
- Delete the description of materiality in IPSAS 3.

Interest Rate Benchmark Reform—Phase 2 (Part 6 of [draft] ED 85)

Analysis

Nature of Amendments?

- Introduce a practical expedient for lessees to account for a lease modification as a result of the interest rate benchmark reform.

IFRS and IPSAS alignment?

- IFRS 16 paragraphs also exist in IPSAS 43 and are aligned.

Amendments applicable to the public sector?

- Permits continue to account for the existing lease
- Same cost-relief as in the private sector
- Enhance comparability

Recommendation

- To clarify that entities apply the practical expedient in paragraph 43 of IPSAS 43 to account for a lease modification as a result of the Interest Rate Benchmark Reform

Lease Liability in a Sale and Leaseback (Part 7 of [draft] ED 85)

Analysis

Nature of Amendments?

- Seller-lessees should not recognize any amount of the gain or loss that relates to the right of use it retains when subsequently measuring lease liabilities arising from a leaseback.

IFRS and IPSAS alignment?

- IFRS 16 paragraphs also exist in IPSAS 43 and are aligned.

Amendments applicable to the public sector?

- Public sector entities also enter into sale and leaseback transactions.
- Better reflect the substance of the transaction.
- Does not permit a gain or loss on day two because of the measurement methodology.

Recommendation

- To clarify that the seller-lessees 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.

Approval of ED 85, Improvements to IPSAS, 2023

Recommendation

- Approve ED 85, *Improvements to IPSAS, 2023* for exposure; and
- A 60-day consultation period.