Date: June 28, 2026

Mr. Ross Smith

Program and Technical Director,

International Public Sector Accounting Standards Board

International Federation of Accountants

70 York Street, Suite 710

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RE: Comments on ED 96, *Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)*

Dear Mr. Smith,

We welcome the opportunity to comment on ED 96, *Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)*. We have consulted with our stakeholders on this ED and are pleased to attach our comments on the ED as Appendix 1.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please reach me at:

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Yours sincerely,

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Appendix 1 –Comments on ED 96, *Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)*

Part 1: Definition of an Operation

Addition of related application guidance and illustrative examples regarding the definition of "operation":

The proposed amendment introduces additional application guidance and illustrative examples to support the assessment of whether an acquired set of activities and assets constitutes an operation. The objective is to provide further clarification on the application of the existing requirements in IPSAS 40, *Public Sector Combinations* and to promote greater consistency in the exercise of professional judgment when evaluating public sector combinations.

In our view, the additional guidance and examples will improve the understandability and consistent application of IPSAS 40, *Public Sector Combinations* particularly in situations where the assessment of an operation may be complex or involve significant judgment. The amendments are therefore expected to facilitate implementation and reduce diversity in practice. Accordingly, we do not identify any public sector-specific reasons not to adopt the proposed amendment.

However:

- we suggest that the IPSASB further clarify the definition of outputs in paragraph AG4, given that the proposed IPSAS 40 wording does not refer to "customers" and is broader than the IFRS 3 wording. In our view, this distinction is appropriate for the public sector, as outputs may include goods or services provided to citizens, communities, or internal beneficiaries, including services provided without charge or for a nominal charge. Such clarification would help avoid misunderstandings.
- we suggest that the IPSASB provide additional guidance and illustrative examples to support the application of judgment in identifying substantive processes—particularly in scenarios involving outsourced arrangements or transactions without a full transfer of resources, for example where no workforce is transferred.

Addition of an optional concentration test to simplify the assessment of whether an acquired set of activities and assets is an operation:

The proposed amendment introduces an optional concentration test that enables entities to determine, in certain circumstances, that an acquired set of activities and assets does not constitute an operation without performing a detailed assessment of all relevant elements. The test is met when substantially all of the current value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The objective of the amendment is to simplify the assessment process and reduce the costs associated with applying the requirements of IPSAS 40, *Public Sector Combinations*.

In our view, the optional concentration test represents a practical and operationally efficient tool for assessing public sector combinations. By providing a simplified assessment in straightforward cases, the amendment is expected to reduce the complexity of implementation while maintaining an appropriate level of rigor. Furthermore, because the test is optional, entities retain sufficient flexibility to apply the full assessment when this is considered more appropriate. Accordingly, we do not identify any public sector-specific reasons not to adopt the proposed amendment.

However, further clarification may be useful in the public sector, especially for government restructurings, transfers of programs or functions, and amalgamations where no consideration is transferred. Also, in some cases, the value may be concentrated in a high-value public service asset, such as infrastructure, a hospital facility, or a public utility, while workforce, systems, and service delivery processes are also transferred. Therefore, we suggest including additional public sector examples, such as the transfer of a public hospital, an educational institution, or the amalgamation of government departments, to clarify the application of the concentration test and the assessment of substantive processes.

Part 2 – Recognition of Acquired Liabilities and Contingent Liabilities within the Scope of IPSAS 19

Reference to guidance in IPSAS 19, Provisions, Contingent Liability and Contingent Assets to determine whether a present obligation exists on acquisition date as a result of past events:

The proposed amendment introduces an explicit reference to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, when determining whether a present obligation exists at the acquisition date as a result of past events. Specifically, the amendment requires the acquirer to apply the guidance in IPSAS 19 to assess whether a present obligation exists before applying the specific recognition requirements in IPSAS 40, *Public Sector Combinations*.

In our view, the proposed amendment improves the coherence of the IPSAS framework by aligning the assessment of present obligations in IPSAS 40, *Public Sector Combinations*, with the requirements of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Accordingly, we do not identify any public sector-specific reasons not to adopt the proposed amendment.

Clarification that only contingent liabilities which are present obligations in accordance with IPSAS 19, and whose fair value can be measured reliably, can be recognize:

The proposed amendment clarifies that the exception to the recognition principle for contingent liabilities in IPSAS 40, *Public Sector Combinations*, applies only after it has been established that a present obligation exists in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and the *IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Furthermore, the amendment clarifies that such contingent liabilities may only be recognized when their fair value can be measured reliably

In our view, the proposed amendment provides useful clarification regarding the interaction between IPSAS 40, *Public Sector Combinations*, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, and the *IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Accordingly, we do not identify any public sector-specific reasons not to adopt the proposed amendment.

An explicit prohibition against the recognition of contingent assets to be consistent with IPSAS 19:

The proposed amendment introduces an explicit prohibition on the recognition of contingent assets acquired in a public sector combination. The objective is to align IPSAS 40, Public Sector Combinations, with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, by clarifying that assets whose existence depends on uncertain future events should not be recognized at the acquisition date. This amendment is also consistent with the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, which requires that an asset represent a present economic resource controlled by the entity.

In our view, the proposed amendment improves consistency between IPSAS 40, *Public Sector Combinations*, and IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, while strengthening the conceptual coherence of the IPSAS framework. By explicitly prohibiting the recognition of contingent assets, the amendment promotes prudent financial reporting and reduces the risk of recognizing uncertain economic resources or service potential. Accordingly, we do not identify any public sector-specific reasons not to adopt the proposed amendment.

We recommend further clarifying the interaction between IPSAS 40, IPSAS 19, and the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities by including decision-support tools, such as flowcharts or decision trees.

Other Comments:

The following are editorial issues in the ED:

- Example G is followed by Example I. If there is no Example H, the examples should be renumbered.
- Paragraph IE319 appears to refer to itself: “As noted in paragraph IE319.” This appears to be an editorial error.
- Paragraph IE324 refers to the excess in paragraph IE326(c), but paragraph IE326(c) does not mention any excess. It should likely be paragraph IE323(c).
- Paragraph IE325 refers to paragraphs IE120(c)(ii) and IE120(c), but there are no such paragraphs. They should likely be paragraphs IE323(c)(ii) and IE323(c) respectively
- In Page 10, paragraph AG9A reads, “not expected to generate revenue from its operations”. It should read, “not expected to generate revenue from their operations”.