IFAC Public Sector Committee
Submission to the IASB on
Exposure Draft of Proposed Improvements to International Accounting Standards

Introduction

The IFAC Public Sector Committee is pleased to submit its comments on the ED of Proposed Improvements to International Accounting Standards (May 2002).

The PSC has adopted an approach of basing its initial set of standards on those issued by the IASB, and has implicitly adopted the IASB framework. To date the PSC has developed a series of 19 International Public Sector Accounting Standards (IPSASs) that are based largely on the corresponding International Accounting Standards (IASs). The IASB Improvements Project will impact on a number of existing IPSASs and the PSC will consider adopting the improvements in the IPSASs in light of the final "improved" IASs at an appropriate time.

Table1: IPSAS and corresponding IAS covered by the IASB Improvements ED

IPSASs	**IASs**
IPSAS 1 *Presentation of Financial Statements*	IAS 1, *Presentation of Financial Statements*
IPSAS 12 *Inventories*	IAS 2, *Inventories*
IPSAS 3 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*	IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*
IPSAS 14 *Events After the Reporting Date*	IAS 10, *Events After the Balance Sheet Date*
IPSAS 17 *Property, Plant and Equipment*	IAS 16, *Property, Plant and Equipment*
IPSAS 13 *Leases*	IAS 17, *Leases*
IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	IAS 21, *The Effects of Changes in Foreign Exchange Rates*
ED 20 *Related Party Disclosures*	IAS 24, *Related Party Disclosures*
IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*	IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
IPSAS 7 *Accounting for Investments in Associates*	IAS 28, *Accounting for Investments in Associates*
NA	IAS 33, *Earnings Per Share*

The PSC has focussed on the questions raised by the IASB in respect of the major amendments proposed. This includes consequential amendments to IAS 40 *Investment Property*. However, the PSC has also provided comment in relation to some of the proposals not specifically addressed by the questions. Unless otherwise stated, responses reflect the unanimous view of the PSC.

Detailed Analysis

IAS 1, *Presentation of Financial Statements*

Equivalent PSC pronouncements – *IPSAS 1 Presentation of Financial Statements*

OVERALL COMMENTS ON THE ED

The PSC agrees with the general thrust of the proposed amendments but has a number of concerns – particularly in relation to "extraordinary items" and the requirements concerning classification of long-term liabilities as discussed below.

QUESTION 1

Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

The PSC notes that the proposed amendments tighten existing requirements with regard to circumstances in which an entity may depart from compliance with a requirement of an International Financial Reporting Standard. The majority of the PSC agree with the proposed amendments to IAS 1 paragraphs 13 to 16.

[IPSAS 1 is based on IAS 1. In particular IPSAS 1 paragraphs 28 to 30 and 32 to 33 contain wording similar to the current IAS 1 paragraphs 13 to 16.]

QUESTION 2

Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

The majority of PSC agree that extraordinary items should not be described as "extraordinary items" on the face of the financial statements and should be reported above the line.

However the PSC believes that giving some emphasis to items meeting the definition of extraordinary items does provide users with information useful to assessing the performance of an entity. The PSC therefore recommends that IAS 1 should require that additional details regarding items that meet the definition of "extraordinary items" be disclosed in the notes to the financial statements. In this context, we note that IPSAS 1 defines extraordinary items more narrowly than IAS 1 (quoted below) and recommend that this definition be considered.

"Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity."

[IPSAS 1, paragraph 101, similar to IAS 1, paragraph 75, currently requires disclosure of "extraordinary items" on the face of the statement "below the line". Extraordinary items are defined more narrowly in IPSAS 1, paragraph 6, than in the existing IAS 1]

QUESTION 3

Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?

The majority of PSC do not agree that a long-term financial liability due to be settled within twelve months should be reclassified as a current liability, if after balance sheet date but before the financial statements are authorized for issue, an agreement to refinance the loan, or to reschedule payments, on a long term basis is finalized.

Arguably, such loans are current as at balance sheet date. However, the majority of PSC believe that such loans should be classified as long-term loans because classifying such loans as long-term provides users with more useful information about the financial position of an entity.

The PSC sees the issue here as a conflict between a strict application of the technical definition of "current liabilities" and how the needs of users can best be met. The approach it prefers gives greater weight to the needs of users. Irrespective of which approach the IASB prefers, full disclosures are necessary.

The PSC agrees that if no agreement to refinance the loan or to reschedule payments has been finalized at the date the financial statements are authorized for issue then such loans should be classified as current.

QUESTION 4

Do you agree that:

(a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

(i) the entity rectifies the breach within the period of grace; or

(ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

For the reasons outlined in the response to Question 3, the majority of PSC do not agree with the approach proposed in paragraph 62.

The PSC agrees with the approach proposed in paragraphs 63 and 64.

QUESTION 5

Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?

The majority of PSC agree with the disclosures proposed in paragraphs 108 and 109.

QUESTION 6

Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?

The PSC agrees with the disclosures proposed in paragraphs 110 to 115.

IAS 2, INVENTORIES

Equivalent PSC pronouncement – IPSAS 12 *Inventories*

OVERALL COMMENTS ON THE ED

The PSC agrees with the proposed changes to IAS 2.

QUESTION 1

Do you agree with eliminating the allowed alternative of using the last-in first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

The PSC agrees with the removal of the last-in-first-out (LIFO) method for determining the cost of inventories.

The PSC issued IPSAS 12 *Inventories* in 2001. IPSAS 12 does not permit entities to adopt the LIFO method for determining the cost of inventories. Removal of the LIFO method as an alternative under IASs will thus remove one of the small number of differences between the existing IASs and the IPSASs.

QUESTION 2

IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?

The PSC agrees with the proposal to retain the requirements in IAS 2 paragraphs 30 and 31.

[IPSAS 12, paragraphs 35 and 37 are in substance identical to IAS 2, paragraphs 30 and 31.]

IAS 8, NET PROFIT OR LOSS FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES

Equivalent PSC pronouncement – IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*

OVERALL COMMENTS ON THE ED

Overall the PSC agrees with the proposed changes in IAS 8. However, as noted below, the PSC does have concerns about the practicalities of the proposal in paragraph 19(d) regarding disclosures about the impact of new standards that have not yet come into effect. It does not support this proposal.

QUESTION 1

Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

The PSC agrees that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and correction of errors so that all such changes and corrections will be accounted for retrospectively.

[IPSAS 3 paragraphs 45 to 47 are in substance currently identical to the extant requirements in IAS 8, paragraphs 38 to 40.]

QUESTION 2

Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

The PSC agrees with the proposal to remove the allowed alternative treatment currently in paragraphs 54 to 57 of IAS 8. The PSC agrees with the proposal to remove the concept of a fundamental error.

[IPSAS 3 paragraphs 38 to 47 are in substance currently identical to the extant requirements in IAS 8, paragraphs 31 to 40]

OTHER COMMENTS

Adoption of a new Standard that has not come into effect (paragraph 19)

The PSC does not agree with the requirements proposed in paragraph 19(d) to require rather than encourage disclosure of the nature of a future change in an accounting policy when an entity has yet to implement a new Standard that has been issued but not yet come into effect. The PSC does not view these requirements as practical and notes that:

- the requirements to make disclosures regarding International Financial Reporting Standards that have not yet become operative would in effect require an entity to apply the standard to determine its financial effects;
- if the IASB intends entities to adopt a new standard at an earlier date it has discretion to set an earlier effective date for the standards it issues. It therefore seems unnecessary to require the proposed disclosure; and
- the proposed requirement can be avoided by resorting to the exemption provided by the proposed paragraph 19(d)(ii) which states that an estimate does not have to be provided if it cannot be made without undue cost or effort. If an entity would in effect have to apply a proposed standard to determine its effect, it could likely claim the costs of doing so to exceed the benefits.

The PSC presumes the proposal is an attempt to enhance comparability. Because the requirements can be avoided, it will only be partly successful in enhancing comparability. The IASB should rather use the date of application of standards to achieve its objectives.

IAS 10, EVENTS AFTER THE BALANCE SHEET DATE

Equivalent PSC pronouncement – IPSAS 14 *Events After the Reporting Date*

OVERALL COMMENTS ON THE ED

The PSC agrees with the proposed change in IAS 10.

OTHER COMMENTS

To revise paragraph 11 and 12 to indicate that if dividends are declared after the balance sheet date, an entity should not recognise those dividends as a liability at the balance sheet date, and the entity should disclose those dividends in the notes to the financial statements.

The PSC agrees with the proposal.

[IPSAS 14, paragraphs 13 to 15 are currently similar to IAS 10, paragraphs 11 and 12.]

IAS 15, INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES

Equivalent PSC pronouncement – There is no equivalent PSC pronouncement for IAS 15.

The PSC agrees that IAS 15 should be withdrawn.

IAS 16, PROPERTY, PLANT AND EQUIPMENT

Equivalent PSC pronouncement – IPSAS 17 *Property, Plant and Equipment*

OVERALL COMMENTS ON THE ED

Overall the PSC agrees with the amendments proposed to IAS 16.

QUESTION 1

Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

The majority of the PSC agree in principle with the proposals set out in paragraphs 21 and 21A.

QUESTION 2

Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)

The PSC agrees in principle with the proposal. The PSC has not yet considered the issue of accounting for intangible assets in the public sector, but agrees that the principles applicable to property, plant and equipment should also apply to intangible assets.

QUESTION 3

Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

The PSC is concerned that this proposal may not be entirely consistent with the depreciation requirements in paragraphs 41 – 52A. Specifically, where a temporary idle period was always intended and was built into the estimate of the useful life of the asset, we are not convinced that depreciation should be charged. In addition, IAS 16, paragraph 43 notes that depreciation may represent the consumption of an asset based on one or more factors including usage and technical obsolescence. If an asset is being depreciated based on usage it seems reasonable to cease depreciating during an idle period. However, to the extent that an asset is being depreciated based on technical obsolescence, the idle period will not lessen the need to depreciate.

We do agree that consideration should be given to the appropriate depreciation in these circumstances and therefore do support some change to the existing wording of paragraph 59.

The PSC agrees that such an asset should be tested for impairment at each year end.

OTHER ISSUES

Component approach (paragraph 12)

The PSC supports the component approach to accounting for property plant and equipment. IPSAS 17 *Property, Plant and Equipment* is based on IAS 16.

The PSC is concerned that without guidance on practical constraints to be applied on the adoption of the component approach, entities may be compelled to account for components at a very low level and that the costs of doing so may exceed the benefits. To address this concern the PSC suggests a minor amendment to paragraph 12 to emphasise that the component approach applies only to material components.

> *"an entity allocates the amount initially recognised in respect of an asset to its <u>material</u> component parts and accounts for each <u>material</u> component separately …"*

The PSC also believes that more practical guidance is needed in the standard to ensure consistent application of the component approach.

Initial Measurement: Dismantling Costs

It is proposed that paragraph 15A(e) regarding the treatment of dismantling costs be deleted. However, proposed paragraph 20A provides additional guidance on dismantling costs. Given that paragraph 20A makes it clear that costs of dismantling and removing the asset and restoring the site are part of the cost of the asset, the PSC is not sure if paragraph 15A(e) should be removed.

Measurement subsequent to initial recognition

The PSC notes that the proposed amended paragraph 38 requires that a revaluation decrease be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. In contrast, IPSAS 17 *Property, Plant and Equipment*, paragraph 51, requires revaluation increases and decreases relating to individual assets within a class of assets to be offset against one another within that class of assets.

IAS 16, paragraph 34, requires that when an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. We consider that revaluation accounting by class of assets should be consistently applied. Accordingly, the PSC recommends that revaluation increases and revaluation decreases relating to assets within a class of property, plant and equipment be required to be offset against one another. The bias in favour of recognising revaluation increases in reserves and revaluation decreases in current profit or loss is exacerbated by the existing requirement to only offset decrements against increments relating to the individual asset.

Note: Some members also noted that donated assets and renewal accounting are significant issues for the public and not-for-profit sectors. While the PSC has not yet issued IPSASs which specifically deal with these topics, work is going on or has been done in some jurisdictions in relation to them and the IASB needs to be cognizant of these developments.

IAS 17, LEASES

Equivalent PSC pronouncement – IPSAS 13 *Leases*

OVERALL COMMENTS ON THE ED

Overall the PSC agrees with the major changes proposed to IAS 17.

QUESTION 1

Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements – a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, *Leases* and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

The PSC agrees with the additional paragraphs proposed in IAS 17 regarding separation of land and buildings for lease classification.

[IPSAS 13, paragraph 16 is currently similar to the current IAS 17, paragraph 11.]

QUESTION 2

Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

The PSC agrees that the direct costs incurred in negotiating a lease should be capitalised and allocated over the lease term – subject to an impairment test. The PSC agrees that only the incremental costs, including internal costs, that are directly attributable to the lease transaction should be capitalised as proposed.

[IPSAS 13, paragraph 45 allows the same choice re initial direct cost as the current IAS 17, paragraph 33.]

IAS 21, THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Equivalent PSC pronouncements –
IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

While the PSC agrees in principle with the proposed changes to IAS 21, it has not yet reviewed IAS 21 in detail

IAS 24, RELATED PARTY DISCLOSURES

Equivalent PSC pronouncement – IPSAS ED 20 *Related Party Disclosures*

OVERALL COMMENTS ON THE ED

The majority of the PSC have concerns regarding the proposed amendments to IAS 24. The PSC is soon to issue IPSAS XX *Related Party Disclosures*. While the proposed IPSAS is based on IAS 24, a number of changes were made to accommodate the public sector. The major differences from IAS 24 are:

- The structure of IPSAS XX differs substantially from that of IAS 24.
- The exclusion from the scope of IAS 24 of wholly owned subsidiaries where the parent entity is domiciled in the same country and provides consolidated financial statements in that country has not been adopted in IPSAS XX.
- Commentary which identifies key management personnel in IAS 24 has been included in a formal definition of "key management personnel" in IPSAS XX.
- The definition of "related party" in IPSAS XX includes related party relationships which are only noted in commentary in IAS 24.
- IPSAS XX includes a definition of "remuneration of key management personnel". IAS 24 does not include this definition.
- IPSAS XX contains additional disclosure requirements in relation to the remuneration of key management personnel and certain other transactions between an entity and its key management personnel.
- Commentary additional to that in IAS 24 has been included in IPSAS XX to clarify the applicability of the standards to accounting by public sector entities.
- Except for limited disclosures about the remuneration of, and certain other specified transactions with, key management personnel, IPSAS XX does not require the disclosure of information about transactions between related parties which occur on normal terms and conditions.
- IAS 24 has more limited exclusions for related party transactions which occur in the course of normal dealings between the parties.

QUESTION 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

The majority of the PSC do not agree with the proposal to not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations. The PSC believes that information regarding management compensation should be required to be disclosed as such information is useful to users in assessing the performance of management and the entity.

While the PSC has not defined "management' and "compensation", it has defined "key management personnel" and their "remuneration". The following sets out the IPSAS requirements and related definitions that may be useful to the IASB in developing definitions of these terms for the proposed standard.

The draft IPSAS *Related Party Disclosures* requires an entity to disclose in relation to key management personnel:

(a) the aggregate remuneration of key management personnel and the number of individuals, determined on a full time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;

(b) the total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period showing separately the aggregate amounts provided to:

   (i) key management personnel; and

   (ii) close members of the family of key management personnel.

Key definitions included in the draft IPSAS related to the above:

Close members of the family of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.

Key management personnel are:

(a) all directors or members of the governing body of the entity; and

(b) other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement key management personnel include:
  (i) where there is a member of the governing body of a whole-of-government entity who has the authority for planning, directing and controlling the activities of the reporting entity, that member;
  (ii) any key advisors of that member; and
  (iii) unless already included in (a), the senior management group of the reporting entity including the chief executive or permanent head of the reporting entity.

Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body or otherwise as employees of the reporting entity.

QUESTION 2

Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

A majority of the PSC <u>do not agree</u> with the proposed amendment. The draft IPSAS does not address this point. However in the public sector there are potentially different users of financial reports of controlled or wholly owned subsidiary entities. It is important therefore that information on related party transactions and outstanding balances is made available at the level of the entity that is most useful to the user.

It is of particular concern that some transactions between a parent or wholly-owned subsidiary and related parties outside the group may be immaterial to the group and, if the exemption in paragraph 3 is used, would not be disclosed in either the entity or consolidated financial statements.

IAS 27, CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES

Equivalent PSC pronouncement – IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*

QUESTION 1

Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

The PSC agrees with the proposed amendment to tighten the circumstances in which a parent entity need not prepare consolidated financial statements. In the public sector there are a number of circumstances where a parent entity should be required to prepare consolidated financial statements. In particular where the information needs of users other than owners of the parent entity are not met through the consolidated financial statements of the ultimate parent entity. These circumstances may also be pertinent to some non-listed enterprises.

IPSAS 6 currently provides that a controlling entity that is a wholly owned controlled entity or is virtually wholly owned, need not present consolidated financial statements provided:

- users are unlikely to exist;
- users information needs are met by controlling entity's consolidated financial statements; and
- the reporting entity obtains approval of the minority interest where the entity is virtually wholly owned.

A controlling entity that is itself wholly owned by another entity may not always present consolidated financial statements since such statements may not be required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector many controlling entities that are either wholly owned or virtually wholly owned, represent key sectors or activities of a government and the purpose of IPSAS 6 is not to exempt such entities from preparing consolidated financial statements. In this situation the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions governments have recognized this and have legislated the financial reporting requirements of such entities.

QUESTION 2

Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

The PSC agrees with the proposed presentation of minority interests.

[IPSAS 6, paragraph 50 is currently similar to IAS 27, paragraph 26.]

QUESTION 3

Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Do you agree that if investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

The majority of PSC agree with the proposed amendments. The PSC has not yet developed an IPSAS equivalent to IAS 39.

IAS 28, ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

Equivalent PSC pronouncement –
IPSAS 7 *Accounting for Investments in Associates*

QUESTION 1

Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

The PSC agrees with the proposed amendments.

QUESTION 2

Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?

The majority of PSC agree with the proposed amendments.

IAS 33, EARNINGS PER SHARE

Equivalent PSC pronouncement – None – Not relevant to the public sector

There is no IPSAS on this subject and the majority of PSC have no objection to the proposed amendments to IAS 33.

IAS 40, INVESTMENT PROPERTY

Equivalent PSC pronouncement – IPSAS 16 *Investment Property*

QUESTION 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:
(a) the rest of the definition of investment property is met; and
(b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

The PSC <u>agrees</u> with the proposed amendment to the definition of investment property.

The IPSAS 16 definition of "Investment Property" is the same as the amended definition of "Investment Property" proposed in IAS 40.

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

The PSC <u>agrees</u> with the proposal that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease.

[IPSAS 16, paragraph 17 is currently the same as IAS 40, paragraph 13].

Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

The PSC <u>agrees</u> with the approach proposed at this time. IPSAS 16 currently allows for a choice between the cost model and the fair value model.