INTERNATIONAL FEDERATION
OF ACCOUNTANTS
545 Fifth Avenue, 14th Floor   Tel: (212) 286-9344
New York, New York 10017   Fax: (212) 286-9570
Internet: http://www.ifac.org

Agenda Item
4.4

Date: March 1, 2011
Memo to: Members of the IPSASB
From: Annette Davis
Subject: Improvements to IPSASs 2011 – Additional Amendment

Introduction

1.   This Agenda Paper sets out an additional proposed amendment to be included in Part III of the Exposure Draft (ED) 45, *Improvements to IPSASs 2011* relating to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Proposed Amendment to IPSAS 19

2.   In *Improvements to IPSASs* issued in November 2010, the IPSASB amended the scope of IPSAS 9 from excluding "insurance contracts of insurance entities" to excluding "insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts."   IPSAS 19 includes the same scope exemption that was in IPSAS 9. Therefore, IPSAS 19 needs to be updated to be consistent with IPSAS 9 and the underlying standard IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. While looking at the source of this amendment, Staff noted that there were three amendments to the underlying standard that related to the same paragraphs. These amendments were:

   a. Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (December 2003);

   b. Issue of IFRS 4, *Insurance Contracts* (March 2004); and

   c. Financial Guarantee Contracts: Amendments to IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 4, *Insurance Contracts* (August 2005).

3.   Appendix B contains the relevant extracts from the above IASB amendments and issue of a standard. Table 1 below sets out the amendments from these documents and the related paragraphs in IPSAS 19.

Table 1: IASB Amendments to IAS 37 Proposed for IPSAS 19

Subject of Amendment	Relationship with IPSASs/ED
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (December 2003) • Deleted paragraph 1(a); • Amended paragraph 2 and Example 9 in Appendix C; to update IAS 37 to exclude from its scope all financial instruments within the scope of IAS 39.	IPSAS 19 • Delete paragraph 1(b); and • Amend paragraph 4 and IG14.
Issue of IFRS 4, *Insurance Contracts* (March 2004) • Deleted paragraphs 1(b) and 4; • Amended paragraph 2 and Example 9 in Appendix C (as already amended by Amendment to IAS 39 (December 2003)); and • Inserted paragraph 5(e); to update IAS 37 to exclude from its scope insurance contracts within the scope of IFRS 4.	IPSAS 19 • Amend paragraph 1(d) to delete the reference to insurance entities and exclude from the scope of IPSAS 19 insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts (IAS 37, paragraphs 1(b) and 5(e)); • Delete paragraph 5; and • Amend paragraph 4 and IG14 (as already amended by Amendment to IAS 39 (December 2003)).
Amendments to IAS 39 and IFRS 4 (August 2005) • Amended paragraph Example 9 in Appendix C.	IPSAS 19 • Amend paragraph IG14.

4. Staff considers that the above amendments should be incorporated into IPSAS 19 in the Improvements 2011 project. This will have the effect of removing the reference to "insurance entities" and updating the example of a single guarantee in the Implementation Guidance to refer to IPSAS 29 which deals with financial guarantee contracts. The text of the proposed amendment to IPSAS 19 is in Appendix A.

> **Question 1:**
> Do you **agree** with the inclusion of a proposed amendment to IPSAS 19 in ED 45, *Improvements to IPSASs 2011*?

Appendix A: Proposed Amendments to IPSAS 19 (in Handbook format)

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 Month 2011. An entity shall apply that amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, 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.~~

Appendix B: Extracts from IASB Documents

Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (December 2003)

Appendix B Amendments to Other Pronouncements

Amendments to IAS 37

B7.   IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is amended as described below.

Paragraphs 1 and 2 are amended to read as follows:

1.   This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:

   (a)   those resulting from executory contracts, except where the contract is onerous;

   (b)   those arising in insurance entities from contracts with policyholders; and

   (c)   those covered by another Standard.

2.   This Standard does not apply to financial instruments (including guarantees) that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. For financial guarantees excluded from the scope of IAS 39, this Standard applies as set out in paragraph 2(f) of IAS 39.

Example 9 is amended to read as follows:

Example 9: A Single Guarantee

On 31 December 1999, Entity A gives a guarantee of certain borrowings of Entity B, whose financial condition at that time is sound. During 2000, the financial condition of Entity B deteriorates and at 30 June 2000 Entity B files for protection from its creditors.

(a)   At 31 December 1999

   Present obligation as a result of a past obligating event

   — The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

   An outflow of resources embodying economic benefits in settlement

   — No outflow of benefits is probable at 31 December 1999.

   Conclusion

— The guarantee is recognised at fair value (see paragraph 2(f) of IAS 39).

(b)   At 31 December 2000

Present obligation as a result of a past obligating event

— The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement

— At 31 December 2000, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Conclusion

— The guarantee is subsequently measured at the higher of (a) the best estimate of the obligation (see paragraphs 14 and 23), and (b) the amount initially recognised less, when appropriate, cumulative amortisation in accordance with IAS 18 *Revenue*.

Note: Where an entity gives guarantees in exchange for a fee, revenue is recognised under IAS 18 *Revenue*.

Issue of IFRS 4, *Insurance Contracts* (March 2004)

Appendix C Amendments to Other Pronouncements

C11   In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraphs 1(b) and 4 are deleted and a new paragraph 5(e) is inserted as follows:

(e)   insurance contracts (see IFRS 4). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of IFRS 4.

In paragraph 2 (as amended in 2003 by IAS 39), the last sentence is deleted.

In Appendix C, example 9, the following new paragraph is inserted after the first paragraph:

This contract meets the definition of an insurance contract in IFRS 4. IFRS 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. IFRS 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that IFAS 4 permits.

Financial Guarantee Contracts: Amendments to IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 4, *Insurance Contracts* (August 2005)

Amendments to Appendix C accompanying IAS 37

In Appendix C, example 9, the second paragraph is amended so that it refers to accounting in accordance with IAS 39 and IFRS 4 (new text is underlined), as follows (deleted text is struck through).

The note at the end of example 9 ('Where an entity guarantees…IAS 18 *Revenue.*') is deleted.

…

This contract meets the definition of an insurance contract in IFRS 4 *Insurance Contracts*, but is within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, because it also meets the definition of a financial guarantee contract in IAS 39. If an issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts. IFRS 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. IFRS 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that IFRS 4 permits and that also complies with the requirements in IAS 39 for financial guarantee contracts within the scope of IAS 39.

…