

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Kuala Lumpur, Malaysia

Meeting Date: December 4–7, 2018

From: Amon Dhiwayo

Agenda Item 7

For:

☒ Approval

☒ Discussion

☒ Information

IMPROVEMENTS

Project summary	To approve minor amendments/improvements to IPSAS in order to address issues raised by stakeholders and to converge, where appropriate, with amendments made to International Financial Reporting Standards.	
Meeting objectives	Topic	Agenda Item
Project management	Instructions up to SEPTEMBER 2018 Meeting	7.1.1
	Decisions up to SEPTEMBER 2018 Meeting	7.1.2
	Improvements Project Roadmap	7.1.3
Decisions required at this meeting	Part I - Amendments to IPSAS 36	7.2.1
	Part II - Amendments to IPSAS 41	7.2.2
	Approval of Final Pronouncement, Amendments to IPSAS 36 and IPSAS 41	7.2.3
Other supporting items	Analysis of Respondents by Region, Function, and Language	7.3.1
	List of Respondents	7.3.2
	Draft Final Pronouncement, <i>Amendments to IPSAS 36 and 41, 2018</i>	7.3.3

INSTRUCTIONS UP TO SEPTEMBER 2018 MEETING

Meeting	Instruction	Actioned
March 2018	All instructions given at the March 2018 meeting were reflected in Exposure Draft 66, <i>Long-Term Interests in Associates and Joint Ventures (Amendments to IPSAS 36)</i> and <i>Prepayment Features with Negative Compensation (Amendments to IPSAS 41)</i> .	

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DECISIONS UP TO SEPTEMBER 2018 MEETING

Date of Decision	Decision
March 2018	All decisions at the March 2018 meeting were reflected in Exposure Draft 66, Long-Term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41) .
December 2017	As part of the work plan discussions, the IPSASB agreed to consider <i>Improvements to IPSAS 2018</i> in March 2018 as there was availability of both staff resources and agenda time.
March 2017	As part of the work plan discussions, the IPSASB deferred the next <i>Improvements</i> project until 2018 as a way of reducing the workload on both the IPSASB and respondents.

Agenda Item 7.1.3

IMPROVEMENTS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
December 2018	<ol style="list-style-type: none">1. Review of responses (ED 66)2. Discussion of issues raised3. Approval of final pronouncement, <i>Long-term Interests in Associates and Joint Ventures</i> (Amendments to IPSAS 36) and <i>Prepayment Features with Negative Compensation</i> (Amendments to IPSAS 41).

Agenda Item

7.2.1

Part I - Amendments to IPSAS 36

Questions

1. The IPSASB is asked to agree the amendments to IPSAS 36, *Investments in Associates and Joint Ventures*.

Detail

2. Exposure Draft (ED) 66, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) was issued in August 2018, with comments due by October 22, 2018. The analysis of respondents by region, function and language can be found at [Agenda Item 7.3.1](#), and the list of the 11 (eleven) respondents can be found at [Agenda Item 7.3.2](#). The draft final pronouncement, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) can be found at [Agenda Item 7.3.3](#). A clean version of the draft final pronouncement is available from staff on request.
3. Part I of ED 66 included a number of amendments to IPSAS to converge with the narrow-scope amendments to IAS 28, *Investments in Associates and Joint Ventures*, made by the IASB in *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) (issued October 2017).
4. The amendments provide guidance to entities to account for long term interests (financial instruments) in associates and joint ventures in accordance with IPSAS 41, *Financial Instruments* before it applies the equity accounting method in IPSAS 36, *Investments in Associates and Joint Ventures*.
5. The amendments included in Part I of ED 66, and the responses to those amendments, are as follows:

Amendment	IPSAS Standard	Summary of Proposed Change	Agree	Issues Raised
Part I	IPSAS 36, <i>Investments in Associates and Joint Ventures</i> .	Clarify that IPSAS 41, <i>Financial Instruments</i> , including its impairment requirements, applies to long-term interests in associates and joint ventures.	8	3

Part I – Effective Date and Transition

6. Part I of ED 66 (paragraphs 51F – 51I) proposed for the amendments to IPSAS 36, to be applied retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, for annual financial statements covering periods beginning on or after January 1, 2022 and earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2022, it shall disclose that fact and apply IPSAS 41 at the same time. An entity

that applies the amendments at the same time or after it applies IPSAS 41 shall apply the transition requirements in IPSAS 41 to long-term interests in associates and joint ventures¹.

7. Respondent 07 disagreed with adopting the retrospective application due to the intricacies of restating the figures. Staff notes that the transition requirements in ED 66 would only be applied where an entity has adopted IPSAS 41 prior to January 1, 2022, and adopts the changes proposed in ED 66 at a later date. Given the timing of both pronouncements, staff consider that this scenario will affect very few if any entities. The gap between the publication of IFRS 9, *Financial Instruments* and the publication of *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) was greater, and hence the transition requirements were more significant in the private sector.
8. Staff also disagrees with the comment because IPSAS 3 states that an entity applies a new accounting policy retrospectively, to provide comparative information for prior periods as far back as practicable. In our opinion, it will not be impracticable to obtain the data on investments in associates and joint ventures and share of surplus or deficits from the prior period.
9. Part I of ED 66 (paragraph 51H) stated that an entity shall recognize the amendments in the opening accumulated surplus or deficit or other component of net assets/equity, as appropriate. Respondent 11 recommended that the retrospective application of the amendment should strictly be recognized in the opening balance of the accumulated surplus or deficit and not another component net assets/equity because paragraph 16 of IPSAS 36 states that any increase or decrease in the value of the interest in associate or joint venture should be recognized directly in surplus or deficit. Respondent 11 added that, allowing the cumulative effect of the amendments to be recognized in another component of net assets/equity will reduce comparability.
10. Staff disagrees with the comment because IPSAS 3 states that the amount of the resulting adjustments is usually made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may also be made to another component of net assets/equity (for example, to comply with an IPSAS).
11. The staff recommendation is that these amendments in Part I of ED 66 are approved with no changes.

Part I – Dual Application of Accounting Rules

12. Part I of ED 66 (paragraphs 20A) proposed that an entity applies IPSAS 41, to financial instruments in an associate or joint venture before it applies equity accounting in terms of IPSAS 36. Respondent 10 expressed discomfort that long-term interests in associates and joint ventures are subject to both the impairment under IPSAS 41 as well as the allocation of losses/deficits per the investments in associates and joint venture standard, IPSAS 36. The respondent added that, the dual application of the standards to the long-term interests may lead to unnecessary confusion and complexity. However, Respondent 10 noted that this dual application exists in the equivalent IFRS. As Respondent 10 supports alignment with IFRS, they agreed with the proposed amendments in ED 66; they consider the issue as one the IASB should address.

¹ An entity shall apply IPSAS 41 for annual periods beginning on or after January 1, 2022.

13. Staff acknowledged that there could be potential for confusion. However, the scope of IPSAS 41 excludes interests in an associate or joint venture to which the equity method is applied. IPSAS 41 does not account for surplus or deficits from the associate or joint venture and any impairment losses on the net investment. IPSAS 36 only mentions long-term interests in the context of recognizing losses of an associate or joint venture and impairment of the net investment in the associate or joint venture and does not specify other recognition and measurement requirements for long-term interests.
14. An illustrative example has also been added to Part I of ED 66 to further clarify how entities apply the requirements long-term interests in IPSAS 36 and IPSAS 41.
15. The staff recommendation is that these amendments in Part I of ED 66 are approved with no changes.

Part I – Editorial Amendments

16. Part I of ED 66 (Paragraph BC20 in the Basis for Conclusions) states that the IPSASB reviewed the revisions to IAS 28 included in *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.
17. Respondent 11 recommended the rewording of paragraph BC20 as follows; *"Interest in associates and joint venture is not strictly restricted to short term period of time but rather cater for longer and shorter period, therefore adopting the amendment leads to public sector financial reporting value addition in respect of interest in associates and joint venture"*.
18. Staff does not consider further editorial amendments because there is no public sector issue that warrants departure from IAS 28, and hence the IPSASB intends to remain as close to the requirements of IFRS as possible². Staff does not consider further editorial amendments because the IPSASB's rationale for aligning its interest in associate and joint venture requirements with IFRS is already set out in paragraphs BC2 – BC4 of IPSAS 36.
19. The staff recommendation is that these amendments in Part I of ED 66 are approved with no changes.

Decisions required

20. Does the IPSASB support the staff recommendations that:
 - (a) No further amendments to IPSAS in terms of the Effective Date and Transition are required;
 - (b) No further amendments to IPSAS in terms of the Dual Application of Accounting Rules are required; and
 - (c) No further amendments to IPSAS in terms of the Editorial Amendments are required.

² Refer to the IPSASB policy document, [The Process for Reviewing and Modifying IASB Documents](#).

Agenda Item

7.2.2

Part II - Amendments to IPSAS 41

Questions

1. The IPSASB is asked to agree the amendments to IPSAS 41, *Financial Instruments*.

Detail

2. Exposure Draft (ED) 66, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) was issued in August 2018, with comments due by October 22, 2018. The analysis of respondents by region, function and language can be found at [Agenda Item 7.3.1](#), and the list of the 11 (eleven) respondents can be found at [Agenda Item 7.3.2](#). The draft final pronouncement, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) can be found at [Agenda Item 7.3.3](#). A clean version of the draft final pronouncement is available from staff on request.
3. Part II of ED 66 included a number of amendments to IPSAS to converge with the narrow-scope amendments to IFRS 9, *Financial Instruments*, made by the IASB in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (issued October 2017).
4. The amendments specify that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of such contracts are eligible to be measured at amortized cost or at fair value through net assets/equity.
5. The amendments included in Part II of ED 66, and the responses to those improvements, are as follows:

Improvement	IPSAS Standard	Summary of Proposed Change	Agree	Issues Raised
Part II	IPSAS 41, <i>Financial Instruments</i>	Amend the classification requirements so that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortized cost or at fair value through net assets/equity.	7	4

Part II – Appropriate Classification of Financial Instruments with Prepayment Features

6. The introduction to Part II of ED 66 referred to the amendments to the classification requirements of financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract as being measured at *amortized cost or at fair value through surplus or deficit*.

7. Respondent 06 disagreed and recommended that the description *at fair value through surplus or deficit be amended to at fair value through net assets/equity*. Staff agree with this comment because it is in line with the requirements of IFRS 9, *Financial Instruments*. IFRS 9 states that financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract should be measured at *amortized cost or at fair value through other comprehensive income*.
8. Staff has made the necessary changes to ensure alignment with IFRS 9.

Part II – Effective Date and Transition

9. Part II of ED 66 (paragraph 156A of IPSAS 41) proposed for the amendments to IPSAS 41 to be applied for annual periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.
10. Respondent 07 advocated for a longer transitional period beginning on or after January 1, 2022 but not later than January 1, 2024. Staff is of the opinion that, an effective date of January 1, 2022 allows sufficient time for jurisdictions and entities to implement the amendments. The transitional period is also aligned to effective date in IPSAS 41, and extending the effective date beyond January 1, 2022 could lead to some entities having to apply transitional requirements twice – once for IPSAS 41 and once for the proposals in ED 66. Earlier application is also permitted, but staff is wary of the fact that jurisdictions and constituents will only adopt IPSAS 41 for periods beginning January 1, 2022.
11. The staff recommendation is that these amendments in Part II of ED 66 are approved with no changes.

Part II – Editorial Amendments

12. Part II of ED 66 (paragraph 188 of IPSAS 41) states that an entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
13. Respondent 09 recommended the following sentence to be added to the paragraph: *“Adequate disclosures in form of notes to the financial statements shall be made to show how the restated amounts for prior periods (if so adopted) have been arrived at.*
14. Staff disagree with adding the sentence because IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* already provides such guidance.
15. Part II of ED 66 (paragraph BC45 in the Basis for Conclusions to IPSAS 41) states that *Financial Instruments, included in Prepayment Features with Negative Compensation* (Amendments to IFRS 9), issued by the IASB in October 2017, and the IASB’s rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

16. Respondent 09 recommended the following sentence to be added to the paragraph: *“The adoption of the amendment is closely aligned with the Board’s on-going strategy of maintaining the IFRS convergence”*.
17. Staff does not consider further editorial amendments because the IPSASB’s rationale for aligning its financial instrument requirements with IFRS is already set out in paragraph BC2 of IPSAS 41.
18. Part II of ED 66 (paragraph AG72 in the Application Guidance to IPSAS 41), states that, if a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding.
19. Respondent 11 recommended that the paragraph should start as follows: *“If the contract giving rise to a financial assets contains.....”* because it is not the financial asset itself that contains the said contractual terms but rather the contract that led to the existence of the said financial asset. Respondent 11 added that the paragraph should also add an explanation of the treatment of attributable costs which shall be incurred in the implementation of the contractual term that could change the timing or amount of contractual cash flows.
20. Staff does not consider further editorial amendments because there is no public sector issue that warrants departure from IFRS 9, and hence the IPSASB intends to remain as close to the requirements of IFRS as possible.
21. The staff recommendation is that these amendments in Part II of ED 66 are approved with no changes.

Decisions required

22. The IPSASB is asked whether it supports the staff recommendation to amend the classification requirements of financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract to be measured at amortized cost or at fair value through net assets/equity.
23. The IPSASB is asked whether it supports the staff recommendations that no further changes to Effective Date and Transition and Editorial Amendments are required.

Agenda Item 7.2.3

Approval of Final Pronouncement, *Amendments to IPSAS 36 and IPSAS 41*

Questions

1. The IPSASB is asked to approve the final pronouncement, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) and to agree the effective date(s) for the final pronouncement.

Detail

Editorial Amendments

2. A number of editorial amendments were made to the text. These corrections, some of which were identified by respondents to ED 66, fall into the following categories: Correction of typographical errors; Amendments to ensure consistency with other IPSAS; and Routine updates made in progressing from an Exposure Draft to a Final Pronouncement (adding the expected publication date and effective dates, removing references to [draft] pronouncement, etc.). These minor changes are shown in [Agenda Item 7.3.3](#) in mark-up. The IPSASB is asked to note these amendments and to provide any comments if necessary.

Due process

3. When approving *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), the IPSASB will need to satisfy itself that due process has been followed. Staff considers that due process has been followed effectively, noting that:
 - [Exposure Draft 66, Long-Term Interests in Associates and Joint Ventures \(Amendments to IPSAS 36\) and Prepayment Features with Negative Compensation \(Amendments to IPSAS 41\)](#), was issued for consultation;
 - Responses to the ED were received and made publicly available on the [IPSASB website](#);
 - The IPSASB has deliberated significant matters raised in the comment letters at this meeting, and decisions taken will be minuted; and
 - The IPSASB will be asked to consider whether there are any issues raised by respondents, in addition to those summarized by staff, that it considers should be discussed by the IPSASB, and agree there are none.
4. The Technical Director will formally advise the IPSASB on whether due process has been followed effectively at the meeting. If *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), is approved, the Technical Director will also advise the IPSASB as to whether the draft Amendments to IPSAS, 2018, or part thereof, needs to be re-exposed.

Effective date

5. The IPSASB will need to consider the effective date of *Amendments to IPSAS 36 and IPSAS 41, 2018*. Staff notes that the IPSASB's usual practice with respect to amendments is to set an effective date of January 1 in the year following publication, subject to any additional implementation period required for specific improvements.
6. *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), is expected to be published in January 2019. If the IPSASB were to follow its usual practice, this would result in an effective date of January 1, 2020. However the effective date of the Amendments is aligned to that of IPSAS 41, *Financial Instruments*, and it is not possible to adopt these amendments prior to adopting IPSAS 41. Staff considers the effective date of IPSAS 41 (January 1, 2022) is the appropriate effective date, and recommends that the IPSASB adopt this effective date.

Decisions required

7. The IPSASB is asked to:
 - (a) Confirm that it is satisfied that due process has been followed effectively;
 - (b) Approve Amendments to IPSAS, 2018; and
 - (c) Agree an effective date for Amendments to IPSAS, 2018 of January 1, 2022.

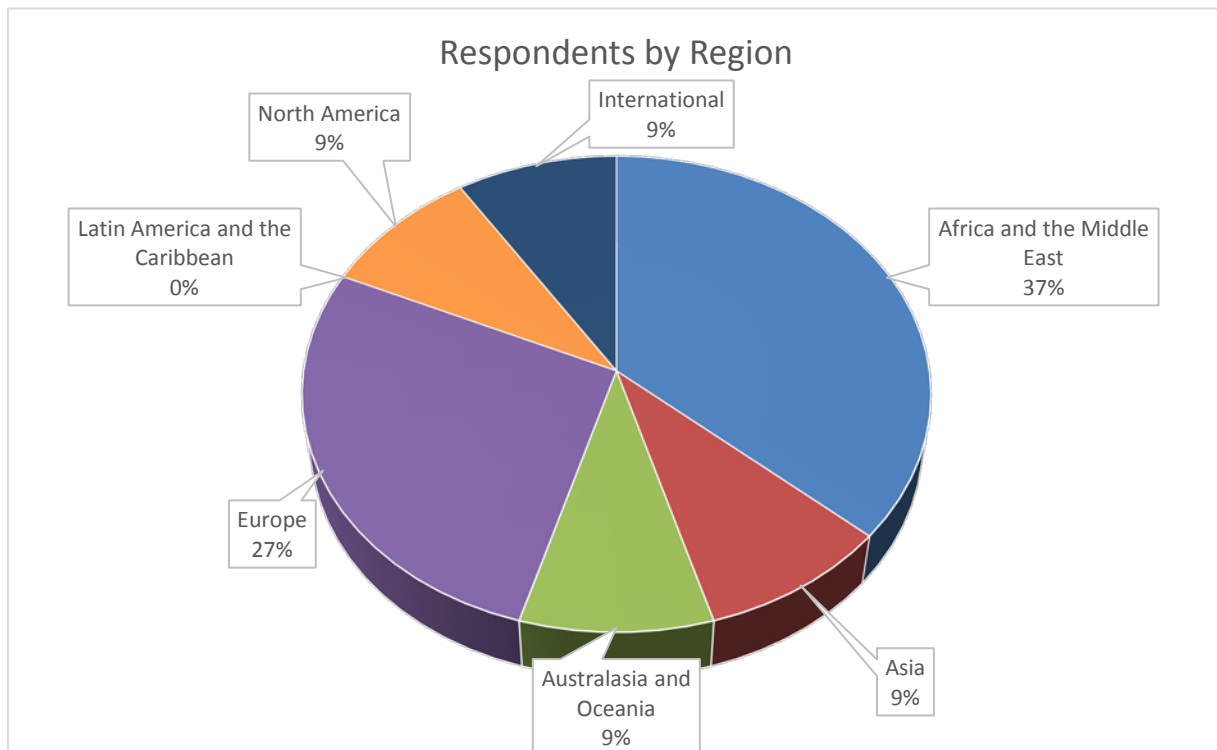
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AMENDMENTS TO IPSAS 36 AND 41, 2018

Analysis of Respondents by Region, Function, and Language

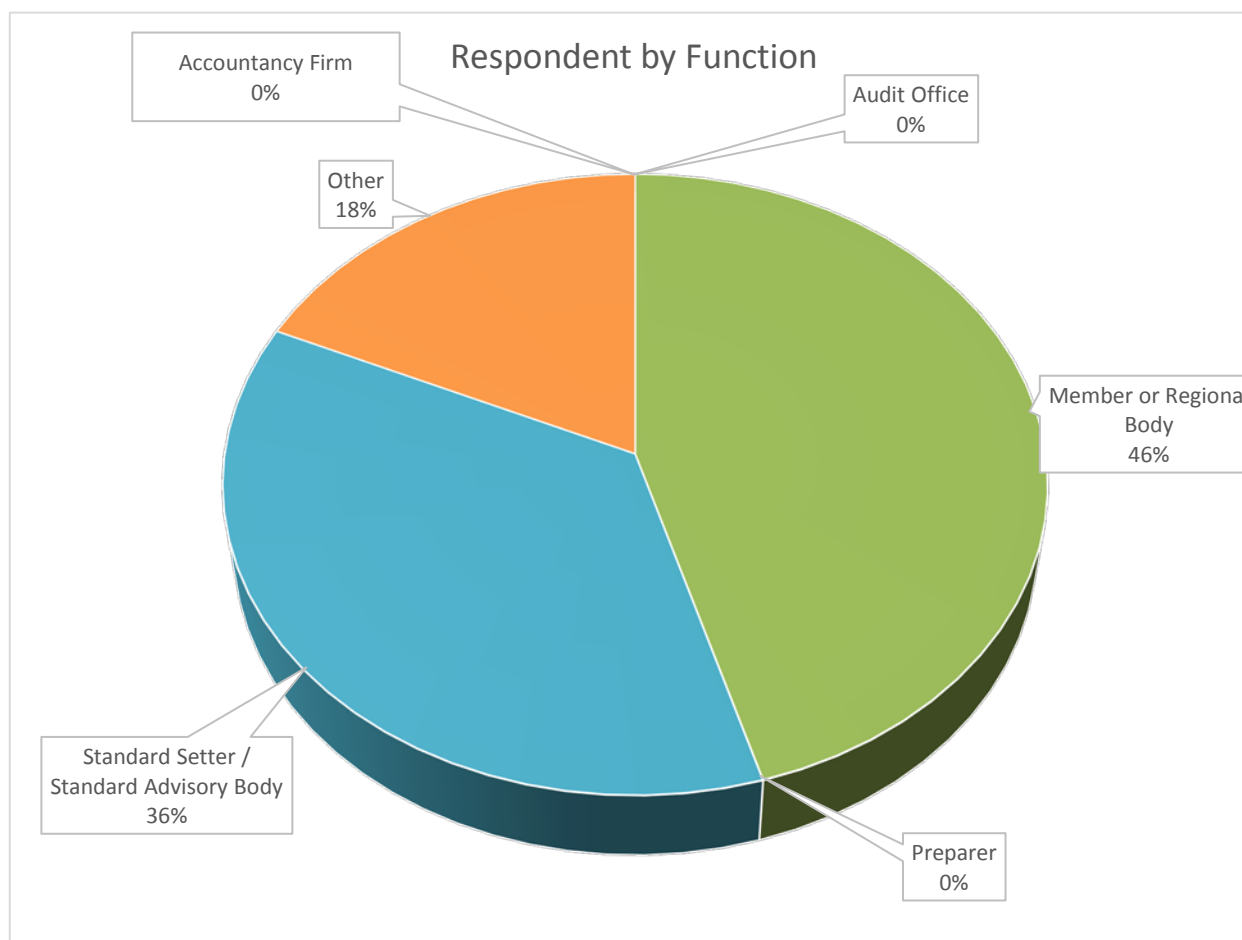
Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	05, 07, 09, 11	4
Asia	06	1
Australasia and Oceania	01	1
Europe	02, 08, 10	3
Latin America and the Caribbean	-	0
North America	04	1
International	03	1
Total		11



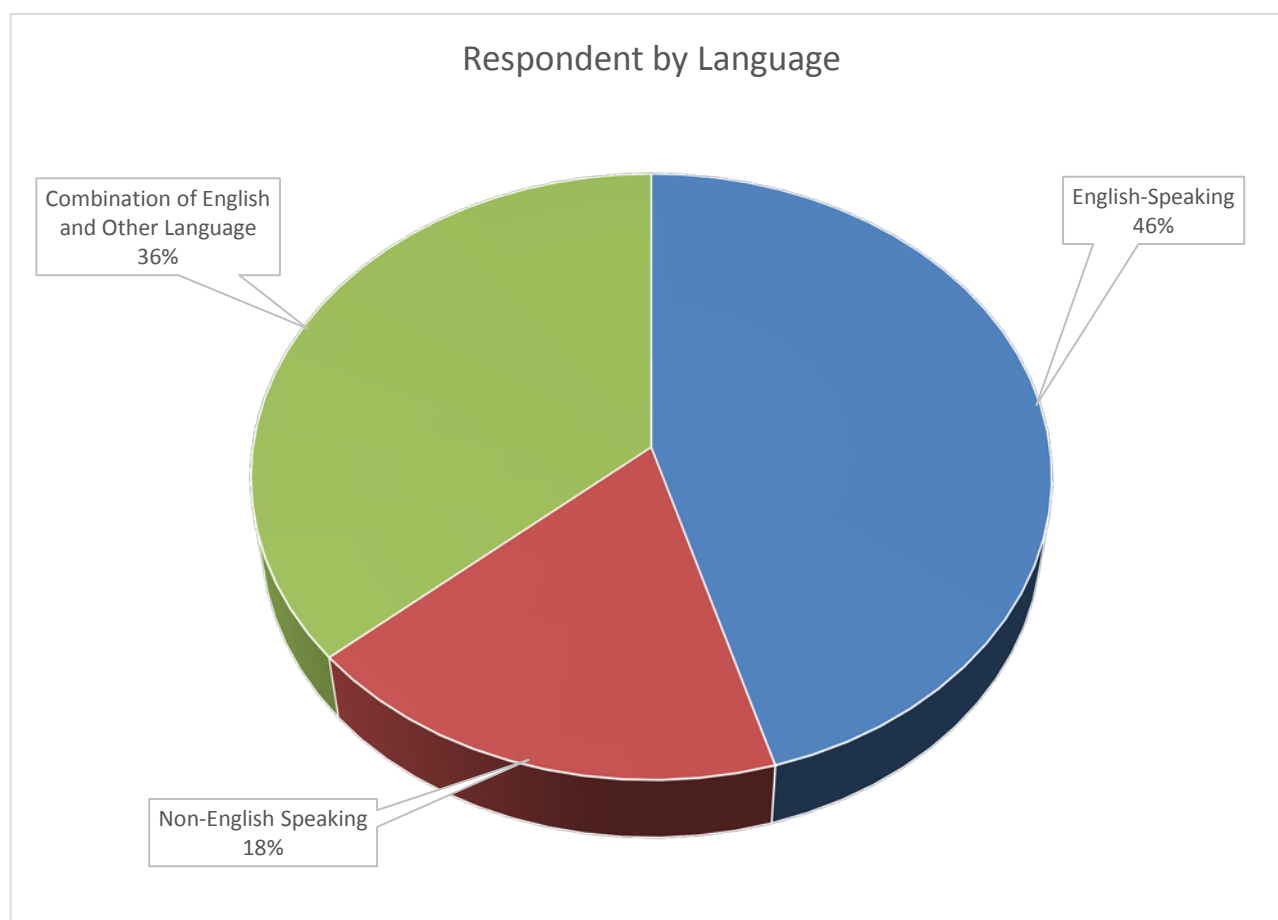
Functional Breakdown

Function	Respondents	Total
Accountancy Firm	-	0
Audit Office	-	0
Member or Regional Body	06, 07, 09, 10, 11	5
Preparer	-	0
Standard Setter / Standard Advisory Body	01, 02, 04, 05	4
Other	03, 08	2
Total		11



Linguistic Breakdown

Language	Respondents	Total
English-Speaking	01, 03, 05, 08, 10	5
Non-English Speaking	02, 06	2
Combination of English and Other Language	04, 07, 09, 11	4
Total		11



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LIST OF RESPONDENTS

Response #	Respondent	Country	Function
01	New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB)	New Zealand	Standard Setter / Standard Advisory Body
02	Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)	Switzerland	Standard Setter / Standard Advisory Body
03	The International Consortium on Governmental Financial Management (ICGFM)	Regional/International	Other
04	Staff of the Public Sector Accounting Board (PSAB)	Canada	Standard Setter / Standard Advisory Body
05	Staff of the Accounting Standards Board (SA)	South Africa	Standard Setter / Standard Advisory Body
06	Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
07	Association of National Accountants Nigeria (ANAN)	Nigeria	Member or Regional Body
08	Kalar Consulting	United Kingdom	Other
09	Pan African Federation of Accountants (PAFA)	Regional/International	Member or Regional Body
10	Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Member or Regional Body
11	The National Board of Accountants and Auditors (NBAA)	United Republic of Tanzania,	Member or Regional Body

Agenda Item 7.3.3

~~Exposure Draft 66~~ Final Pronouncement
~~August 2018~~ January 2019
~~Comments due: October 22, 2018~~

IPSAS®

~~Proposed~~ International Public Sector Accounting
Standard®

Long-term Interests in
Associates and Joint Ventures
(Amendments to IPSAS 36)
and Prepayment Features
with Negative Compensation
(Amendments to IPSAS 41)

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by October 22, 2018.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36) AND PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

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PART I: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36)

Objective

1. The objective of Part I of *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36)* and *Prepayment Features with Negative Compensation (Amendments to IPSAS 41)* ~~this Exposure Draft~~ is to ~~propose~~ make amendments to IPSAS to converge with the narrow-scope amendments to IAS 28, *Investments in Associates and Joint Ventures*, made by the IASB in *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)* (issued October 2017).

~~Request for Comments~~

- ~~2. The IPSASB would welcome comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.~~

IPSAS Addressed

<i>IPSAS Standard</i>	<i>Summary of Proposed Change</i>
IPSAS 36, <i>Investments in Associates and Joint Ventures</i>	Clarify that IPSAS 41, <i>Financial Instruments</i> , including its impairment requirements, applies to long-term interests in associates and joint ventures.

Amendment: Part I

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraphs 20A and 51F–51I are added and paragraph 44 is deleted. New text is underlined and deleted text is struck through.

...

Equity Method

...

20A. An entity also applies IPSAS 41, ~~Financial Instruments~~, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 41). An entity applies IPSAS 41 to such long-term interests before it applies paragraph 41 and paragraphs 43–48 of this Standard. In applying IPSAS 41 the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

...

Application of the Equity Method

...

Impairment Losses

44. ~~The entity applies the impairment requirements in IPSAS 41 to its other interests in the associate or joint venture that are in scope of IPSAS 41 and that do not constitute part of the net investment.~~
~~[Deleted]~~

...

Effective Date and Transition

...

51F. Paragraph 20A was added and paragraph 44 deleted by ~~[draft]~~ Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41), issued in ~~[Month] [Year]~~ January 2019. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors, for annual financial statements covering periods beginning on or after January 1, 2022, except as specified in paragraphs 51G–51I. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2022, it shall disclose that fact and apply IPSAS 41 at the same time.

51G. An entity that first applies the amendments in paragraph 51F at the same time it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 to the long-term interests described in paragraph 20A.

51H. An entity that first applies the amendments in paragraph 51F after it first applies IPSAS 41 shall apply the transition requirements in IPSAS 41 necessary for applying the requirements set out in paragraph 20A to long-term interests. For that purpose, references to the date of initial application in

IPSAS 41 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

51I. If an entity does not restate prior periods applying paragraph 51H, at the date of initial application of the amendments it shall recognize in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) any difference between:

(a) The previous carrying amount of long-term interests described in paragraph 20A at that date;
and

(b) The carrying amount of those long-term interests at that date.

...

Basis for Conclusions

...

Revision of IPSAS 36 as a result of *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41)

BC20. The IPSASB reviewed the revisions to IAS 28, *Investments in Associates and Joint Ventures*, included in *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

...

Illustrative Example—Long-term Interests in Associates and Joint Ventures

This example accompanies, but is not part of, IPSAS 36.

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying IPSAS 41, *Financial Instruments*, and IPSAS 36 based on the assumptions presented. The entity applies IPSAS 41 in accounting for long-term interests. The entity applies IPSAS 36 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in IPSAS 36 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

- (a) O Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.
- (b) P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through surplus or deficit applying IPSAS 41.
- (c) LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortized cost applying IPSAS 41 with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying IPSAS 36, nor does the LT Loan become credit-impaired applying IPSAS 41.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 40 of IPSAS 36. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 42 of IPSAS 36. Accordingly, the investor does not recognize its share of the associate's deficits once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is CU200,¹ in P Shares is CU100 and in the LT Loan is CU100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarizes the carrying amount at the end of each year for P Shares and the LT Loan applying IPSAS 41 but before applying IPSAS 36, and the associate's surplus (deficit) for each year. The amounts for the LT Loan are shown net of the loss allowance.

¹ In this Illustrative Example, currency amounts are denominated in currency units (CU).

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36) AND PREPAYMENT
FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

<u>At the end of</u>	<u>P Shares applying IPSAS 41 (fair value)</u>	<u>LT Loan applying IPSAS 41 (amortized cost)</u>	<u>Surplus (deficit) of the associate</u>
<u>Year 1</u>	<u>CU110</u>	<u>CU90</u>	<u>CU50</u>
<u>Year 2</u>	<u>CU90</u>	<u>CU70</u>	<u>CU(200)</u>
<u>Year 3</u>	<u>CU50</u>	<u>CU50</u>	<u>CU(500)</u>
<u>Year 4</u>	<u>CU40</u>	<u>CU50</u>	<u>CU(150)</u>
<u>Year 5</u>	<u>CU60</u>	<u>CU60</u>	<u>=</u>
<u>Year 6</u>	<u>CU80</u>	<u>CU70</u>	<u>CU500</u>
<u>Year 7</u>	<u>CU110</u>	<u>CU90</u>	<u>CU500</u>

Analysis

Year 1

The investor recognizes the following in Year 1:

Investments in the associate:

<u>DRDr. O Shares</u>	<u>CU200</u>	
<u>DRDr. P Shares</u>	<u>CU100</u>	
<u>DRDr. LT Loan</u>	<u>CU100</u>	
<u>GRCr. Cash</u>		<u>CU400</u>

To recognize the initial investment in the associate

<u>DRDr. P Shares</u>	<u>CU10</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU10</u>

To recognize the change in fair value (CU110 – CU100)

<u>DRDr. Surplus or deficit</u>	<u>CU10</u>	
<u>GRCr. Loss allowance (LT Loan)</u>		<u>CU10</u>

To recognize an increase in the loss allowance (CU90 – CU100)

<u>DRDr. O Shares</u>	<u>CU20</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU20</u>

To recognize the investor's share of the associate's surplus (CU50 × 40%)

At the end of Year 1, the carrying amount of O Shares is CU220, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Year 2

The investor recognizes the following in Year 2:

<u>DRDr. Surplus or deficit</u>	<u>CU20</u>	
<u>CRCr. P Shares</u>		<u>CU20</u>
<i>To recognize the change in fair value (CU90 – CU110)</i>		
<u>DRDr. Surplus or deficit</u>	<u>CU20</u>	
<u>CRCr. Loss allowance (LT Loan)</u>		<u>CU20</u>
<i>To recognize an increase in the loss allowance (CU70 – CU90)</i>		
<u>DRDr. Surplus or deficit</u>	<u>CU80</u>	
<u>CRCr. O Shares</u>		<u>CU80</u>
<i>To recognize the investor's share of the associate's deficit (CU200 × 40%)</i>		

At the end of Year 2, the carrying amount of O Shares is CU140, P Shares is CU90 and the LT Loan (net of loss allowance) is CU70.

Year 3

Applying paragraph 20A of IPSAS 36, the investor applies IPSAS 41 to P Shares and the LT Loan before it applies paragraph 41 of IPSAS 36. Accordingly, the investor recognizes the following in Year 3:

<u>DRDr. Surplus or deficit</u>	<u>CU40</u>	
<u>CRCr. P Shares</u>		<u>CU40</u>
<i>To recognize the change in fair value (CU50 – CU90)</i>		
<u>DRDr. Surplus or deficit</u>	<u>CU20</u>	
<u>CRCr. Loss allowance (LT Loan)</u>		<u>CU20</u>
<i>To recognize an increase in the loss allowance (CU50 – CU70)</i>		
<u>DRDr. Surplus or deficit</u>	<u>CU200</u>	
<u>CRCr. O Shares</u>		<u>CU140</u>
<u>CRCr. P Shares</u>		<u>CU50</u>
<u>CRCr. LT Loan</u>		<u>CU10</u>
<i>To recognize the investor's share of the associate's deficit in reverse order of seniority as specified in paragraph 41 of IPSAS 36 (CU500 × 40%)</i>		

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is CU40.

Year 4

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 4:

<u>DRDr. Surplus or deficit</u>	<u>CU10</u>	
<u>GRCr. P Shares</u>		<u>CU10</u>

To recognize the change in fair value (CU40 – CU50)

Recognition of the change in fair value of CU10 in Year 4 results in the carrying amount of P Shares being negative CU10. Consequently, the investor recognizes the following to reverse a portion of the associate's deficits previously allocated to P Shares:

<u>DRDr. P Shares</u>	<u>CU10</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU10</u>

To reverse a portion of the associate's deficits previously allocated to P Shares

Applying paragraph 41 of IPSAS 36, the investor limits the recognition of the associate's deficits to CU40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognizes the following:

<u>DRDr. Surplus or deficit</u>	<u>CU40</u>	
<u>GRCr. LT Loan</u>		<u>CU40</u>

To recognize the investor's share of the associate's deficit

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognized share of the associate's deficits of CU30 (the investor's share of the associate's cumulative deficits of CU340 – CU320 deficits recognized cumulatively + CU10 deficits reversed).

Year 5

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 5:

<u>DRDr. P Shares</u>	<u>CU20</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU20</u>

To recognize the change in fair value (CU60 – CU40)

<u>DRDr. Loss allowance (LT Loan)</u>	<u>CU10</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU10</u>

To recognize a decrease in the loss allowance (CU60 – CU50)

After applying IPSAS 41 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognized share of the associate's deficits of CU30 to these interests.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36) AND PREPAYMENT
FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

<u>DRDr. Surplus or deficit</u>	<u>CU30</u>	
<u>GRCr. P Shares</u>		<u>CU20</u>
<u>GRCr. LT Loan</u>		<u>CU10</u>

To recognize the previously unrecognized share of the associate's deficits

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying IPSAS 41 to its interests in the associate, the investor recognizes the following in Year 6:

<u>DRDr. P Shares</u>	<u>CU20</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU20</u>
<i>To recognize the change in fair value (CU80 – CU60)</i>		
<u>DRDr. Loss allowance (LT Loan)</u>	<u>CU10</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU10</u>

To recognize a decrease in the loss allowance (CU70 – CU60)

The investor allocates the associate's surplus to each interest in the order of seniority. The investor limits the amount of the associate's surplus it allocates to P Shares and the LT Loan to the amount of equity method deficits previously allocated to those interests, which in this example is CU60 for both interests.

<u>DRDr. O Shares</u>	<u>CU80</u>	
<u>DRDr. P Shares</u>	<u>CU60</u>	
<u>DRDr. LT Loan</u>	<u>CU60</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU200</u>

To recognize the investor's share of the associate's surplus (CU500 × 40%)

At the end of Year 6, the carrying amount of O Shares is CU80, P Shares is CU80 and the LT Loan (net of loss allowance) is CU70.

Year 7

The investor recognizes the following in Year 7:

<u>DRDr. P Shares</u>	<u>CU30</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU30</u>

To recognize the change in fair value (CU110 – CU80)

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36) AND PREPAYMENT
FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

<u>DRDr. Loss allowance (LT Loan)</u>	<u>CU20</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU20</u>
<i>To recognize a decrease in the loss allowance (CU90 – CU70)</i>		
<u>DRDr. O Shares</u>	<u>CU200</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU200</u>
<i>To recognize the investor's share of the associate's surplus (CU500 x 40%)</i>		

At the end of Year 7, the carrying amount of O Shares is CU280, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Years 1–7

When recognizing interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying IPSAS 36 (paragraph 20A of IPSAS 36). Accordingly, the investor recognizes the following in each year:

<u>DRDr. Cash</u>	<u>CU5</u>	
<u>GRCr. Surplus or deficit</u>		<u>CU5</u>
<i>To recognize interest revenue on LT Loan based on the effective interest rate of 5%</i>		

Summary of amounts recognized in surplus or deficit

This table summarizes the amounts recognized in the investor's surplus or deficit.

<u>Items recognized</u>	<u>Impairment (losses), including reversals, applying IPSAS 41</u>	<u>Gains (losses) of P Shares applying IPSAS 41</u>	<u>Share of surplus (deficit) of the associate recognized applying the equity method</u>	<u>Interest revenue applying IPSAS 41</u>
<u>During</u>				
<u>Year 1</u>	<u>CU(10)</u>	<u>CU10</u>	<u>CU20</u>	<u>CU5</u>
<u>Year 2</u>	<u>CU(20)</u>	<u>CU(20)</u>	<u>CU(80)</u>	<u>CU5</u>
<u>Year 3</u>	<u>CU(20)</u>	<u>CU(40)</u>	<u>CU(200)</u>	<u>CU5</u>
<u>Year 4</u>	<u>=</u>	<u>CU(10)</u>	<u>CU(30)</u>	<u>CU5</u>
<u>Year 5</u>	<u>CU10</u>	<u>CU20</u>	<u>CU(30)</u>	<u>CU5</u>
<u>Year 6</u>	<u>CU10</u>	<u>CU20</u>	<u>CU200</u>	<u>CU5</u>
<u>Year 7</u>	<u>CU20</u>	<u>CU30</u>	<u>CU200</u>	<u>CU5</u>

PART II: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

Objective

~~3.2.~~ The objective of Part II of *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36)* and *Prepayment Features with Negative Compensation (Amendments to IPSAS 41)* ~~this Exposure Draft~~ is to propose amendments to IPSAS to converge with the narrow-scope amendments to IFRS 9, *Financial Instruments*, made by the IASB in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (issued October 2017).

Request for Comments

~~4. The IPSASB would welcome comments on all the changes proposed in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.~~

<i>IPSAS Standard</i>	<i>Summary of Proposed Change</i>
IPSAS 41, <i>Financial Instruments</i>	Amend the classification requirements so that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through surplus or deficit <u>net assets/equity</u> .

Amendment–Part II

Amendments to IPSAS 41, *Financial Instruments*

Paragraphs 156A, 184–189 and AG74A are added, and paragraphs AG73(b) and AG74(b) are amended. Paragraph AG72 has not been amended but has been included for ease of reference. New text is underlined and deleted text is struck through.

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Effective Date and Transition

Effective Date

...

156A. *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)*, issued in ~~[Month], [Year]~~ January 2019, added paragraphs 184–189 and AG74A and amended paragraphs AG73(b) and AG74(b). An entity shall apply these amendments for annual periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Transition

...

Transition for Prepayment Features with Negative Compensation

184. An entity shall apply *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36)* and *Prepayment Features with Negative Compensation (Amendments to IPSAS 41)* retrospectively in accordance with IPSAS 3, except as specified in paragraphs 185–189.
185. An entity that first applies these amendments at the same time it first applies this Standard shall apply paragraphs 157–183 instead of paragraphs 186–189.
186. An entity that first applies these amendments after it first applies this Standard shall apply paragraphs 187–189. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).
187. With regard to designating a financial asset or financial liability as measured at fair value through surplus or deficit, an entity:
 - (a) Shall revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 44 but that condition is no longer satisfied as a result of the application of these amendments;
 - (b) May designate a financial asset as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 44 but that condition is now satisfied as a result of the application of these amendments;

(c) Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if that designation was previously made in accordance with the condition in paragraph 46(a) but that condition is no longer satisfied as a result of the application of these amendments; and

(d) May designate a financial liability as measured at fair value through surplus or deficit if that designation would not have previously satisfied the condition in paragraph 46(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

188. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

189. In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:

(a) The previous measurement category and carrying amount determined immediately before applying these amendments;

(b) The new measurement category and carrying amount determined after applying these amendments;

(c) The carrying amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through surplus or deficit but are no longer so designated; and

(d) The reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through surplus or deficit.

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Application Guidance

This Appendix is an integral part of IPSAS 41

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Classification

Classification of Financial Assets

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Contractual Cash Flows ~~That~~ that are Solely Payments of Principal and Interest on the Principal Amount Outstanding

...

Contractual Terms that Change the Timing or Amount of Contractual Cash Flows

AG72. If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (i.e., the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. (See also paragraph AG80.)

AG73. The following are examples of contractual terms that result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding:

- (a) A variable interest rate that consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time (the consideration for credit risk may be determined at initial recognition only, and so may be fixed) and other basic lending risks and costs, as well as a profit margin;
- (b) A contractual term that permits the issuer (i.e., the debtor) to prepay a debt instrument or permits the holder (i.e., the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable ~~additional~~ compensation for the early termination of the contract; and
- (c) A contractual term that permits the issuer or the holder to extend the contractual term of a debt instrument (i.e., an extension option) and the terms of the extension option result in

contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the extension of the contract.

AG74. Despite paragraph AG72, a financial asset that would otherwise meet the condition in paragraphs 40(b) and 41(b) but does not do so only as a result of a contractual term that permits (or requires) the issuer to prepay a debt instrument or permits (or requires) the holder to put a debt instrument back to the issuer before maturity is eligible to be measured at amortized cost or fair value through net assets/equity (subject to meeting the condition in paragraph 40(a) or the condition in paragraph 41(a)) if:

- (a) The entity acquires or originates the financial asset at a premium or discount to the contractual par amount;
- (b) The prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable ~~additional~~ compensation for the early termination of the contract; and
- (c) When the entity initially recognizes the financial asset, the fair value of the prepayment feature is insignificant.

AG74A. For the purpose of applying paragraphs AG73(b) and AG74(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination. For example, a party may pay or receive reasonable compensation when it chooses to terminate the contract early (or otherwise causes the early termination to occur).

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

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Revision of IPSAS 41 as a result of Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)

BC45. The IPSASB reviewed the revisions to IFRS 9, *Financial Instruments*, included in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), issued by the IASB in October 2017, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments.

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