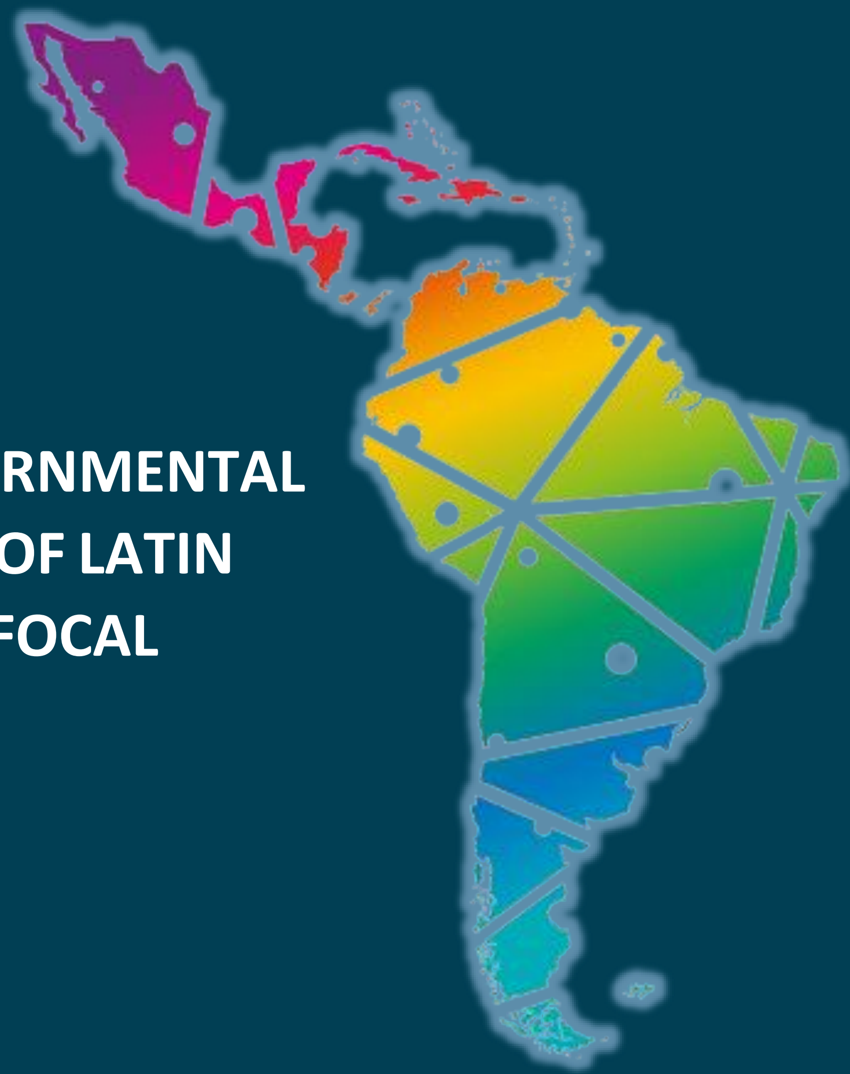

FORUM OF GOVERNMENTAL ACCOUNTING OF LATIN AMERICA - FOCAL

COMMENTS TO EXPOSURE DRAFT 89, AMENDMENTS TO CONSIDER IFRIC INTERPRETATIONS

JUNE 2024

San Salvador, June 14, 2024.

Subject: Comments from the member countries of the FORUM OF GOVERNMENTAL ACCOUNTING OF LATIN AMERICA (FOCAL), to Exposure Draft (ED) 89, *Amendments to Consider IFRC Interpretations.*

Mr. Ian Carruthers
Chairman of the International Public Sector Accounting Standards Board (IPSASB)

Dear Mr. Carruthers,

I extend cordial greetings and thanks for the technical support of the IPSASB towards FOCAL on the different topics of Public Accounting.

In this sense, I present for your consideration of FOCAL comments to Exposure Draft (ED) 89, *Amendments to Consider IFRC Interpretations*. With these actions, FOCAL continues to strengthen joint work with the IPSASB, providing the experience of each country in the application of Public Sector Accounting regulations.

Sincerely,

DIRECCIÓN GENERAL DE CONTABILIDAD GUBERNAMENTAL
REPÚBLICA DE EL SALVADOR EN LA AMÉRICA CENTRAL
DIRECTOR
MINISTERIO DE HACIENDA

Joaquín Alberto Montano Ochoa
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Comments to Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations*

<table>
<tr><th colspan="2">EXPOSURE DRAFT (ED) 89, AMENDMENTS TO CONSIDER IFRIC INTERPRETATIONS</th></tr>
<tr><th>SPECIFIC MATTER</th><th>COMMENTS</th></tr>
<tr><td><u>Specific Matter for Comment 1:</u>

➢ The IPSASB proposes amendments to IPSAS based on five IFRIC Interpretations developed by the IFRS Interpretations Committee, as presented in <u>Table 1</u>, because the guidance is applicable to the public sector (see Basis for Conclusions paragraphs in the respective IPSAS).

Do you agree with the proposed amendments? If not, please explain your reasons.</td><td><u>El Salvador</u>

We agree because:

• In relation to the proposed amendments to IPSAS 19, 43 and 45, derived from IFRIC 1: these indicate that the changes that arise for the estimates of liabilities for dismantling, removing and restoring an asset of property, plant and equipment or a right-of-use asset must be accounted for, which will allow the recording of economic events to be kept up to date.

• The proposed amendments to IPSAS 19, and originating from IFRIC 5: because they show how an entity that individually establishes, or contributes to, a decommissioning fund should account for its obligation for the payment of costs and related interest in that decommissioning fund, which helps to make the obligations acquired more transparent.

• The proposed amendments to IPSAS 10, based on IFRIC 7, establish that if hyperinflation is identified in the economy of the functional currency, when the economy was not hyperinflationary in the prior period, the entity shall restate its financial statements in accordance with the requirements of this IPSAS.

• Through the proposed amendments to IPSAS 39, which were motivated by IFRIC 14 and IAS 19: it is clarified that entities accounting for labor obligations and benefit assets must maintain a level of availability to meet present and future post-employment obligations.

• The proposed amendment to IPSAS 10, aligned with IFRIC 21, shows how an entity should account for an obligation to pay levies imposed by a government.

However, some of the proposed amendments are not applicable to the country, as is the case of the existence of hyperinflation in the economy in relation to the functional currency.</td></tr>
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SPECIFIC MATTER	COMMENTS
	Mexico From the review from the technical-accounting field of the document sent, the incorporation of the amendments proposed in ED 89 in the indicated IPSAS is considered appropriate, since it allows specifying important concepts associated with the operations that are carried out in each of them; However, it should be noted that, in the current accounting regulations in Mexico, the concepts stated as amendments in ED 89 have not yet been implemented. **Venezuela** The Focal study group - Venezuela, agrees with the incorporation of guidance, based on Interpretations of IFRIC 1, 5, 7, 14 and 21, in IPSAS to clarify the application of existing accounting principles to specific matters. Once the corresponding review has been carried out, there are no observations to the proposed modifications based on the Basis for Conclusions of IPSAS 10 Financial Reporting in Hyperinflationary Economies; IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets; IPSAS 39 Employee Benefits; IPSAS 43 Leases and IPSAS 45 Property, Plant and Equipment, considering that specific aspects are clarified in each one, namely: 1.- Accounting for specific changes in the estimates of existing liabilities to dismantle, eliminate and restore an asset of property, plant and equipment, in a way that ensures accurate and consistent accounting of decommissioning costs, which is critical for the fair presentation of the future obligations of an entity in the public sector. 2.- Accounting for the obligation to pay costs and its interest related to the decommissioning fund for an entity that contributes to it. In this sense, the amendment to NISCP 19 is considered valid, which improves clarity and transparency in the accounting of environmental obligations and interests in decommissioning funds, promoting better management and presentation of environmental risks and obligations: in which the obligation to pay decommissioning costs will be recognized as a liability and its participation in the fund will be recognized separately. 3.- Identification of the existence of hyperinflation in the economy of the functional currency of an entity, when the economy was not hyperinflationary in the previous

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	period. Such interpretation is essential for entities operating in hyperinflationary economies, ensuring that restatements are made in a consistent and accurate manner, better reflecting economic reality in the financial statements. 4.- Consideration of the limits on defined benefit assets and minimum financing requirements when accounting for post-employment defined benefits ensures that entities correctly account for their defined benefit obligations and assets, taking into account any regulatory or contractual restrictions. which is crucial for the accuracy and transparency of financial reporting. 5.- Accounting for an obligation to pay taxes imposed by a government ensures that public entities adequately reflect their fiscal responsibilities in the financial statements. These amendments provide a clear line on how public sector entities should account for interest on funds intended to cover future decommissioning and restoration costs, ensuring that financial statements accurately reflect these obligations and corresponding rights. On the other hand, the interpretations of IFRIC 1, 5 and 21 facilitate the comparison between the public and private sectors, which guarantees that public sector accounting practices go hand in hand with global best practices. Likewise, the proposal to incorporate the guide into the International Public Sector Accounting Standard (IPSAS) 19 represents a significant advance in the adaptation of accounting standards to the economic realities of countries affected by hyperinflation, especially in the context Latin American. This proposed modification to the interpretation not only facilitates the historical analysis of the financial situation of the entity, but also strengthens the confidence of users in the integrity of the accounting data; and also for public entities in Latin America, this modification can be a valuable tool in financial management and tax planning, by providing an accurate view of the real depreciation of assets and the impact of inflation on liabilities, since the Entities can design more effective strategies to mitigate the negative effects of hyperinflation. in a manner that ensures accurate and consistent accounting of decommissioning costs, which is critical for the fair presentation of an entity's future obligations in the public sector. With respect to the interpretation of IFRIC 14, this adjustment is particularly relevant for Latin American governments, where pension and employee benefit systems require efficient management. One of the main benefits is the clear definition and treatment of refunds and reductions in future contributions, which is essential in contexts with minimum funding requirements.

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	This precision helps governments more accurately assess their obligations and assets, avoiding overestimation of available resources and ensuring greater accuracy in the presentation of financial statements. In addition, clarity in the measurement of the economic benefit available and the inclusion of the costs associated with the liquidation of the plan will also allow government entities to plan and manage their resources more efficiently. Conclusions Venezuela: ED 89 proposes important amendments to align the NISCP with interpretations of the IFRIC, improving clarity, consistency and transparency in the accounting of specific topics. Although implementation can be complex and costly, the benefits in terms of regulatory compliance and informed decision making outweigh the challenges, providing a solid foundation for public sector accounting. The pros of incorporating IFRIC interpretations as improvements in IPSAS range from alignment with international and local regulations, reducing the risk of regulatory conflicts, in addition to considering the transparency of financial reports, providing a clearer vision of obligations. and assets of the entities. For their part, some cons are derived from or associated with complexity in the implementation of the new standards; they may be complex and require significant training for accounting personnel. Entities may face additional costs associated with implementing and complying with the new standards.

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<u>Specific Matter for Comment 2:</u> ➢ The IPSASB decided not to propose amendments to IPSAS based on two Interpretations, as presented in Table 2, for the rationale listed below. Do you agree with the IPSASB's decision not to propose amendments to IPSAS for these two Interpretations? If not, please explain your reasons, and indicate where the guidance should be included and why.	**<u>El Salvador</u>** Yes, we agree with the proposed exceptions on the grounds of not considering the interpretations of IFRIC 6, Liabilities Arising from Specific Market Participation - Waste Electrical and Electronic Equipment and SIC 7 Introduction of the euro. The aforementioned, considering that, at the public sector level there are no institutions dedicated to manufacture electrical equipment for domestic use, therefore, the economic facts considered would be more focused on the private industrial sector. And what is related to SIC - 7, a more detailed analysis is necessary to address challenges that are increasingly gaining strength as for example cryptocurrencies as a means of exchange, so additional work is required to consider this issue and the development of the regulatory framework or guidelines that regulate the economic facts that can be generated with the use of such assets, in the public sector. **<u>Mexico</u>** OK. It is considered appropriate not to incorporate the proposed modifications, since they are specific concepts that are handled infrequently in the majority of Governments, so it is not appropriate to integrate them into a general Standard. **<u>Venezuela</u>** The Focal study group - Venezuela, agrees with not incorporating modifications or guides, based on Interpretations of IFRIC 6 and SIC 7, in the IPSAS considering that they do not represent a specific need of the public sector, determining that the guides contained in the aforementioned interpretations they are not very useful. In this regard, specifically, analyzing IFRIC 6 Liabilities arising from Participation in a Specific Market - Waste Electrical and Electronic Equipment, we consider that only in exceptional circumstances would public sector entities be producers of electrical and electronic equipment for domestic use. In the case of Venezuela, there are no public sector accounting entities that produce such equipment, nor specific legislation that establishes guidelines for its management, that requires payment of electronic waste management costs, and consequently to recognize a provision for such costs; However,

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	it has regulations relating to the protection of the environment and management of Waste Electrical and Electronic Equipment. This decision underlines the practical and contextual approach of the IPSASB, ensuring that the standards are relevant and useful. Likewise, with respect to SIC-7, Introduction of the euro, specifically, both in the international context of the public sector and particularly for Latin American countries, the applicability of this guide is limited. Instead, a more detailed analysis is necessary to address specific challenges such as dollarization and other monetary unions, so additional work is effectively required to consider other challenges, leading to their incorporation in the application of IPSAS 4, Effects of Variations in Foreign Currency Exchange Rates, in the international public sector.