REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
COMMONWEALTH AVENUE, QUEZON CITY

GOVERNMENT ACCOUNTANCY SECTOR
OFFICE OF THE ASSISTANT COMMISSIONER

June 11, 2024

Mr. IAN CARRUTHERS
Chair
International Public Sector Accounting Standards Board (IPSASB)

Dear Mr. Carruthers,

Relative to the electronic email dated April 26, 2024, requesting COA's comments on the Exposure Draft (ED) 89, *Amendments to Consider IFRIC Interpretations* of the IPSASB, we are submitting the herein comments and recommendations/inputs of this Sector, for consideration, please.

Thank you.

ROY L. URSAL
Assistant Commissioner

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
COMMONWEALTH AVENUE, QUEZON CITY

GOVERNMENT ACCOUNTANCY SECTOR

COMMENTS AND RECOMMENDATIONS

SUBJECT : Exposure Draft 89, *Amendments to Consider IFRIC Interpretations*

DATE : June 10, 2024

Reference	Comments/Input
Specific Matter for Comment 1: The IPSASB proposed amendments to IPSAS based on five IFRIC Interpretations developed by the IFRS Interpretations Committee, as presented in Table 1, because the guidance 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.	
1. IFRIC Interpretation IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities`*	We agree with the proposed amendments due to the significant benefits it provide to public sector entities. The IFRIC 1 provides guidance in circumstances where an entity has existing decommissioning, restoration, or similar liabilities associated with an asset and there are changes in estimates of those liabilities. It outlines the accounting treatment for such changes, emphasizing that adjustments to the carrying amount of the related asset should be recognized as part of the cost of the asset if certain conditions are met. This guidance ensures accurate recognition and measurement of these obligations in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*; IPSAS 43, *Leases* and IPSAS 45, *Property, Plant and Equipment*. Importantly, IFRC 1 addresses complexities not fully covered by the existing standards enhancing the effectiveness and relevance of the accounting treatment.
1.1. Summary of Proposed Amendments To clarify how an entity should account for specific changes in estimates of existing liabilities to dismantle, remove and restore a property, plant, and equipment asset in the scope of IPSAS 45, or right-of-use asset in the scope of IPSAS 43	We also suggest some editorial revisions, as follows: *No further comments/recommendations.*

Reference	Comments/Input
a. Proposed Amendments to IPSAS IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (Appendix B and Illustrative Examples)	For IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (Appendix B and Illustrative Examples) 1. Change the numbering of the paragraph "111P" to "111M" since the last paragraph number under the "Effective date" portion is 111L. 2. For paragraph B5(a), it is better to specify the provision in the item (b) being referred to avoid confusion and different interpretations. The same comment shall also be applied to paragraphs B6(a)(i) and B6(c). 3. In paragraph IE5 under the Illustrative Examples, revise the term "Cost of Asset" to *Asset* or *Asset (at cost)* (in general, unless specific asset can be recognized). 4. In IE11, recalculate the formulas: a. CU126,600 x 1/37 = 3,422 (For consistency with IE6 with the depreciation expense rounded off to the nearest ones) b. The 5 per cent of CU11,600. The discount expense for 20X3 is CU580 instead of CU600. 5. In IE13, revise the account title "Asset at Valuation" to "Asset (at valuation)" for proper naming of the account title. 6. In IE14, revise the Note 1 to "CU10,600 at December 31, 20X2 plus 20X3's depreciation expense of CU3,422 and discount expense of CU580 = CU14,602" incorporating the previous comments. 7. In IE15 (a), revise the July 1, 20Y9 to July 1, 20X9, for consistency.
b. IPSAS 43, *Leases* (Reference to IPSAS 19, Appendix B)	For IPSAS 43, *Leases* (Reference to IPSAS 19, Appendix B) 1. On the effective date, revise the paragraph 103H to 103A, unless there are preceding paragraphs which were not included in the amendments to IPSAS 43. If there are additional amendments, we suggest including these as paragraphs 103A-103G.

Reference	Comments/Input
c. IPSAS 45, *Property, Plant, and Equipment* (Reference to IPSAS 19, Appendix B)	For IPSAS 45, *Property, Plant, and Equipment* (Reference to IPSAS 19, Appendix B) 1. In paragraph 25, include the title of IPSAS 46 for clarity and proper guidance, thus revising it to IPSAS 46, Measurement. 2. Change the numbering of paragraph 87C to 86A, since paragraph 87 in the published IPSAS 45 discusses the transitional provisions and not the effective date.
2. <u>IFRIC Interpretation</u> IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds 2.1. <u>Proposed Amendments to IPSAS</u> IPSAS 19 (Appendix C) 2.2. <u>Summary of Proposed Amendments</u> To clarify how an entity that is a contributor to a decommissioning fund should account for its obligation to pay decommissioning costs and its related interest in that fund	We agree with the proposed amendments to IPSAS 19 because IFRIC 5 provides clarity regarding the treatment of contributions to funds and offers specific guidance for decommissioning activities, which IPSAS 19 may not fully address alone. This will help public sector entities in comprehending how to account for their contributions to decommissioning funds and the associated obligations and interests.
3. <u>IFRIC Interpretation</u> IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* 3.1. <u>Proposed Amendments to IPSAS</u> IPSAS 10, *Financial Reporting in Hyperinflationary Economies* (Appendix A) 3.2. <u>Summary of Proposed Amendments</u> To clarify how an entity identifies the existence of hyperinflation in the economy of its functional currency when the economy was not hyperinflationary in the prior period.	The amendments to IPSAS 10, *Financial Reporting in Hyperinflationary Economies*, specifically focus on entities operating in hyperinflationary environments. Currently, the Philippines is not considered a hyperinflationary economy. Nonetheless, implementing this guidance is beneficial for future economic shifts, ensuring preparedness and resilience. Additionally, these amendments provide other countries with more detailed and specific guidance, enhancing the quality, consistency, and comparability of financial statements globally. Given these considerations, we agree with IPSASB's proposed amendments to IPSAS 10 based on IFRIC 7.
4. <u>IFRIC Interpretation</u> IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Considering that the Philippines currently adopts IPSAS 39, *Employee Benefits*, and recognizing the relevance of the issues addressed by IFRIC 14 to the public sector as highlighted in proposed BC25 of Amendment: Part 4 – The Limit on a Defined Benefit

Reference	Comments/Input
4.1. <u>Proposed Amendments to IPSAS</u> IPSAS 39, *Employee Benefits* (Appendix AA and Illustrative Examples) 4.2. <u>Summary of Proposed Amendments</u> To clarify how an entity should consider limits on the defined benefit asset and minimum funding requirements when accounting for its post-employment defined benefits or other long-term employee defined benefits.	Asset, Minimum Funding Requirements, and their Interaction, we agree with the proposed amendments to IPSAS 39. These amendments will enhance the quality, transparency, and comparability of financial reporting, thereby improving overall financial management and stakeholder confidence in the public sector. Consider also the revision/inclusion of the following in IPSAS 39, *Employee Benefits* (Appendix AA and Illustrative Examples): 1. On the portion of Effective Date, revise the paragraph 176F to 176C, since the updated version of IPSAS 39 is up to 176B only. 2. In paragraph AA9, include the title of IPSAS 1 clarity and proper guidance, thus, revising the paragraph AA9 to "<u>In accordance with IPSAS 1, Presentation of Financial Statements, the entity shall disclose …</u>". 3. In IE4, include a sample computation for better appreciation and understanding, and revise as follows: The payment of CU300 would change the deficit of CU100 to a surplus of CU200. Of this CU200, 60 per cent (CU120) is refundable. CU Paid contributions 300 Deficit <u>(100)</u> Surplus 200 4. In IE8, include a sample computation for better appreciation and understanding, and revise as follows: When the contributions of CU300 are paid, the net defined benefit assets will be CU120. CU Paid contributions 300 Net defined benefit liability <u>(180)</u> Net defined benefit assets 120

<table>
<tr><th>Reference</th><th>Comments/Input</th></tr>
<tr><td>5. <u>IFRIC Interpretation</u>
IFRIC 21, Levies

5.1 <u>Proposed Amendments to IPSAS</u>
IPSAS 19 (Appendix D and Illustrative Examples)

5.2 <u>Summary of Proposed Amendments</u>
To clarify how an entity should account for an obligation to pay levies imposed by a government.</td><td>For IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.[1] The IPSASB generally concurred that there is no specific public sector reason for not incorporating this interpretation on the IPSAS 19 as a guidance for public sector setting.

Therefore, we agree with the proposed amendments for IPSAS 19 based on the IFRIC 21 as provided in the Appendix D, Part 5 - Levies of the ED 89.

On the Effective Date, consider revising paragraphs 111P to 111M, since the updated IPSAS 19 is up to 111L. If there are previous amendments not included in the updated IPSAS 19, we suggest to include it and labelled first as 111M to 111O.</td></tr>
<tr><td colspan="2">Specific Matter for Comment 2:

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.</td></tr>
<tr><td>1. <u>IFRIC or SIC Interpretation:</u>
IFRIC 6, Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment

1.1. <u>Summary of IFRIC or SIC Interpretation:</u>
To clarify when an entity that produces electrical and electronic equipment for household use and is required under legislation to pay e-waste management costs should recognize a provision for waste management costs.</td><td>We concur with IPSASB's decision not to propose amendments to IPSAS based on IFRIC 6. This IFRIC provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE) in respect of sales of historical household equipment.

Presently in the Philippine public sector setting, there is no existing entities with a mandate to produce electrical and electronic equipment for household use. Philippine public sector entities may only acquire electrical and electronic equipment which shall be strictly for official or public use.</td></tr>
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[1] IFRIC 21, paragraph 2.

Reference	Comments/Input
1.2. IPSASB's Rationale for not Incorporating into IPSAS: The IPSASB noted that there are rare circumstances where a public sector entity applying IPSAS would be a producer of electrical and electronic equipment for household use. Thus, the IPSASB decided that the guidance in IFRIC 6 is not applicable or useful for the public sector.	It is worthy to note that paragraph 2 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities emphasizes that: "2. The primary objective of most public sector entities is **to deliver services to the public**, rather than to make profits and generate a return on equity to investors." (*Emphasis supplied*) BC29 of IPSAS 1, Presentation of Financial Statements states that: "*The meaning of the term "public sector"* BC29. According to paragraph 1.8 of the Conceptual Framework, the term "public sector" includes national, regional, state/provincial and local governments. It also includes international governmental organizations. The IPSASB acknowledges that the public sector also includes other entities that seek a return on equity to investors. IPSASs are not intended to apply to the general purpose financial reports of this type of entity. However, when they are included in consolidated financial statements by a controlling entity that applies IPSASs, appropriate adjustments are made to ensure conformity with the economic entity's accounting policies. Therefore, the IPSASB is of the view that the term public sector is related to single and group of entities as described in the Conceptual Framework." (*Emphasis supplied*) Thus, we can conclude that presently, the IPSASB has no specific reason to revise IPSAS based on IFRIC 6.
2. IFRIC or SIC Interpretation: SIC-7, *Introduction of the Euro* 2.1. Summary of IFRIC or SIC Interpretation: To clarify how an entity in a country participating in the Economic and Monetary Union (EMU) should account for the change from its national currency to the euro. 2.2. IPSASB's Rationale for not Incorporating into IPSAS: The IPSASB noted that there is limited applicability of the guidance for the international public sector, as-is. Further	The European Economic and Monetary Union (EMU) means: • Coordination of economic policy-making between Member States • Coordination of fiscal policies, notably through limits on government debt and deficit • An independent monetary policy run by the European Central Bank (ECB) • Single rules and supervision of financial Institutions within the euro area • The single currency and the euro area If the IPSASB consider amending the IPSAS 4 based on SIC 7, then it is true that they shall also consider the application of IPSAS 4 on the financial reporting

Reference	Comments/Input
work is required to consider other challenges in applying IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* in the international public sector, including dollarization and other current or prospective monetary unions. Thus, the IPSASB decided to further consider the application of IPSAS 4 in its future work program.	of entities in countries participating in current or prospective monetary unions other than EMU. This necessitates comprehensive research and study on existing monetary unions, if any, and related prevailing exchange rates. Moreover, a further study on the matter may appropriately address the accounting treatment for foreign currency transactions and operations in the financial statements and how to translate financial statements into a presentation currency of a country that decides to join a certain monetary union at later stages. In view of the foregoing, we interpose no objection with the IPSASB's decision not to propose amendments to IPSAS 4 based on SIC 7.

Thank you.