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17 June 2024

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Submission via web

Dear Mr. Carruthers

IPSASB Exposure Draft 89 - Amendments to Consider IFRIC Interpretations

I am pleased to make this submission on IPSASB Exposure Draft 89 - *Amendments to Consider IFRIC Interpretations*.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I include my detailed responses below. My responses are also in the context of not-for-profit private sector entities that apply IPSASB's or equivalents.

In summary:

IFRIC 1 *Changes in Existing Decommissioning Restoration and Similar Liabilities*

I disagree with this change.

IFRIC 5 *Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds*

No comments.

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

No comments.

IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

No comments.

IFRIC 21 *Levies*

I disagree with this change.

Yours sincerely,

David Hardidge

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IFRIC 1 Changes in Existing Decommissioning Restoration and Similar Liabilities

I disagree with the proposed change, as it will lead to non-sensical outcomes. I also believe that the changes to the restoration provision should be made directly against the carrying value of the asset, not the asset revaluation surplus.

The IPSASB should review the proposed accounting from commencement to the end of the life of the asset, and ensure that the proposed accounting is consistent with the 'operational value' concept.

It should be noted that the accounting was developed for the private sector that does not frequently use the revaluation model for property, plant and equipment.

Non-sensical outcome.

In the proposed example, the nuclear power plant has a decommissioning obligation, expected in 20X0 + 40 years of CU70,400. Discounted at 5%, at commencement the obligation is CU10,000 and at the end of 3 years at 31 December 20X2, the obligation is CU11,600.

Under the proposals, the carrying value of the asset is the depreciated replacement cost of the asset (excluding the decommissioning component) and the decommissioning component measured at the decommissioning liability.

Consequently, at the end of the useful life of the asset, the fair value would be the depreciated replacement cost of the asset (nil) and the decommissioning liability of CU70,400 for a total of CU70,400.

So, the organisation would have an asset with a carrying value of CU70,400 and a decommissioning liability of CU70,400, with a net position of nil.

This is non-sensical. The organisation, in reality, has an asset with service potential of nil, and an obligation to pay CU70,400 for a negative net position of CU70,400.

It also does not make sense that, all things being equal, the increase in the decommissioning liability (from the unwinding of the discount) is included in the carrying value of the asset. This is because, under the proposals, the carrying value of the asset is the depreciated replacement cost of the asset (excluding the decommissioning component) and the decommissioning liability (that increases over time from the unwinding of the discount).

Decommissioning component – using the restoration liability

I believe that it would make some sense that the decommissioning component being based on the restoration liability – specifically, the 'gross' of the replacement cost being based on the restoration liability, and that the gross being adjusted for the obsolescence of the underlying asset.

To illustrate, the decommissioning liability after 3 years (after unwinding the discount) is CU11,600 (actual CU11,576). This is then adjusted for obsolescence (3 years out of 40) of CU868 for a net carrying value of CU10,708.

Another illustration, the decommissioning liability after 30 years (after unwinding the discount) is CU43,219. This is then adjusted for obsolescence (30 years out of 40) of CU32,414 for a net carrying value of CU10,805.

Also, at the end of the asset's useful life, the carrying value of the asset (excluding the decommissioning component) will be nil, as will the decommissioning component ('gross' of 70,400 less physical obsolescence of 70,400).

Adopting the above approach would require modification of the current value illustrative examples.

While the net carrying value of the asset at the end of its useful life is nil, the carrying value during its useful life, and the depreciation expense during its life, looks odd – particularly when compared to use historical cost.

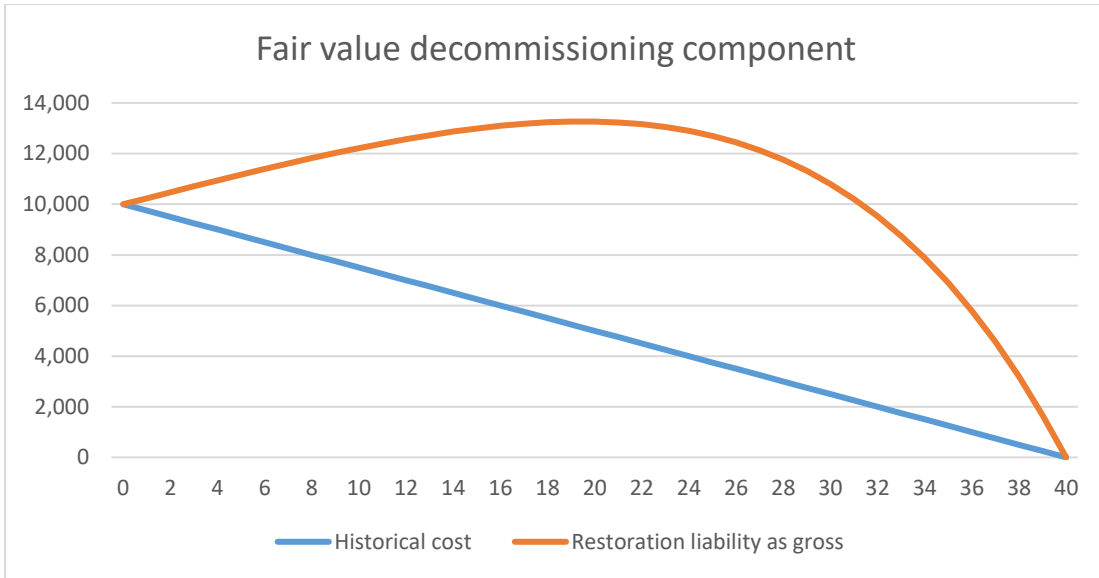
Decommissioning component – using historical cost

As I state above, the IPSASB should review the proposed accounting from commencement to the end of the life of the asset, and ensure that the proposed accounting is consistent with the 'operational value' concept.

I have already noted above that having the fair value of the decommissioning component equal to the restoration component does not make sense -as illustrated by having a fair value of the asset at the end of its useful life at an amount other than nil.

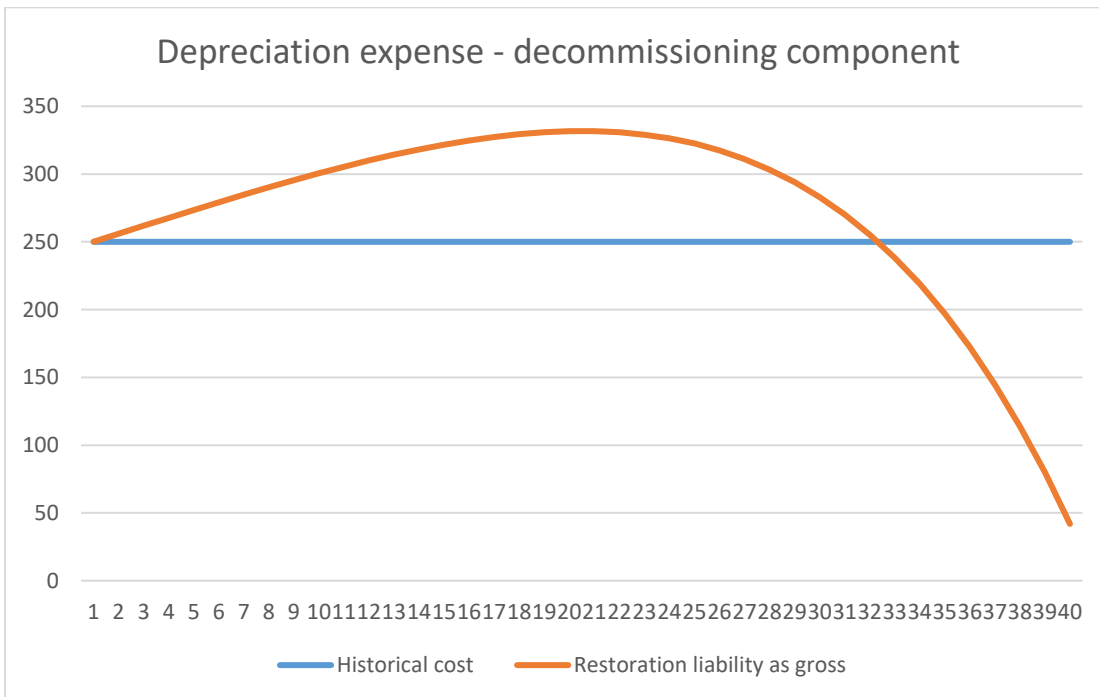
I believe that it makes some sense that the decommissioning component being based on the restoration liability – for example, the 'gross' of the replacement cost being based on the restoration liability, and that the gross be adjusted for the obsolescence of the underlying asset. However, the results look odd.

The following compares the carrying value of the decommissioning component, based on the above illustrative example, for each of historical cost, and for using the restoration liability as the 'gross' replacement cost and adjusting for (physical) obsolescence.



Source: Refer to Appendix

The following compares the depreciation expense for each of the above alternatives:



Source: Refer to Appendix

As I noted above, the results of using the restoration liability (adjusted for obsolescence) as fair value during the life of the asset provides odd results.

I suggest the IPSASB explore whether the decommissioning component should be accounted for at historical cost, even if the underlying asset is measured at fair value / operational value.

More appropriate accounting entries

The proposed illustrative examples (for the current value model) make any adjustments for the restoration liability (other than unwinding of the discount) directly to the asset revaluation surplus. I believe it would make more sense for the adjustments to be made to the carrying value of the asset, consistent with the cost model.

For example, for the illustrative example:

Fair value of asset at the end of year 4 (before adjustments)	
Underlying asset	115,000
Decommissioning component	<u>11,600</u>
	126,600
Depreciation expense	3,420

This should be accounted for as follows:

Previous carrying value	126,600
Less depreciation expense	<u>3,420</u>
	123,180
Less decommissioning liability adjustment	<u>5,000</u>
	118,180
Decrement to asset revaluation surplus	<u>3,980</u>
Fair value (107,000 + 7,200)	114,200

Instead of that illustrated of:

Previous carrying value	126,600
Less depreciation expense	<u>3,420</u>
	123,180
Decrement to asset revaluation surplus	<u>8,980</u>
Fair value (107,000 + 7,200)	114,200

Using the above approach would mean removing the following requirement – as it would not be needed as the carrying value would have already been adjusted.

- B6(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting period.

IFRIC 5 Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds

No comments

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

No comments

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

No comments

IFRIC 21 Levies

I disagree with this change. The IASB is currently undertaking a project for the ‘targeted improvements’ of the provisions standard (IAS 37). The project is intended to withdraw IFRIC Interpretation 21.

Also, the tentative decisions made by the IASB appear to be contrary to those in IFRIC Interpretation 21, and the proposals in this ED.

I do not see any point in updating IPSAS 19 now, when there is likely to be a need to reverse those changes in the near future, when IPSAS 19 is updated to reflect changes to IAS 37 by the IASB.

The tentative decisions include:

Appears to contradict paragraph D7:

Staff paper – April 2024 - Indicative drafting

- 14G A conclusion that it is appropriate to prepare an entity’s financial statements on a going concern basis also implies a conclusion that the entity has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or by ceasing to trade.

Appears to contradict paragraph D10:

IASB Update April 2024 – Staff paper – April 2024 - Threshold-triggered costs

The IASB tentatively decided to propose adding application requirements to IAS 37 for threshold-triggered costs, specifying that:

- a. a present obligation for a threshold-triggered cost arises as the entity carries out the activity that contributes to the total amount of activity on which the cost is measured; and
- b. at any date within the measurement period, the amount of the present obligation is a portion of the total estimated cost for the measurement period—the portion being the amount attributable to the activity carried out to that date.

I see no harm in deferring this issue, as the subject relates to levies imposed by governments – which often do not affect other government bodies.

Appendix – Calculation data for graphs

Restoration obligation – 40 years, CU70,400

Interest rate 5%
Useful life 40

	Historical cost			Using restoration liability as gross cost								
	Liability Start of year	Liability End of year	Accum.	Gross	Obsol.	WDV	Depr. Exp	Accum.	Gross	Obsol.	WDV	Depr. Exp
0		10,000		10,000	0	10,000			10,000	0	10,000	
1	10,000	10,500		10,000	250	9,750	250	10,500	263	10,238	250	
2	10,500	11,025		10,000	500	9,500	250	11,025	551	10,474	256	
3	11,025	11,576		10,000	750	9,250	250	11,576	868	10,708	262	
4	11,576	12,155		10,000	1,000	9,000	250	12,155	1,216	10,940	268	
5	12,155	12,763		10,000	1,250	8,750	250	12,763	1,595	11,167	273	
6	12,763	13,401		10,000	1,500	8,500	250	13,401	2,010	11,391	279	
7	13,401	14,071		10,000	1,750	8,250	250	14,071	2,462	11,609	285	
8	14,071	14,775		10,000	2,000	8,000	250	14,775	2,955	11,820	290	
9	14,775	15,513		10,000	2,250	7,750	250	15,513	3,490	12,023	295	
10	15,513	16,289		10,000	2,500	7,500	250	16,289	4,072	12,217	301	
11	16,289	17,103		10,000	2,750	7,250	250	17,103	4,703	12,400	305	
12	17,103	17,959		10,000	3,000	7,000	250	17,959	5,388	12,571	310	
13	17,959	18,856		10,000	3,250	6,750	250	18,856	6,128	12,728	314	
14	18,856	19,799		10,000	3,500	6,500	250	19,799	6,930	12,870	318	
15	19,799	20,789		10,000	3,750	6,250	250	20,789	7,796	12,993	322	
16	20,789	21,829		10,000	4,000	6,000	250	21,829	8,732	13,097	325	
17	21,829	22,920		10,000	4,250	5,750	250	22,920	9,741	13,179	327	
18	22,920	24,066		10,000	4,500	5,500	250	24,066	10,830	13,236	329	
19	24,066	25,270		10,000	4,750	5,250	250	25,270	12,003	13,266	331	

20	25,270	1,263	26,533	10,000	5,000	5,000	250	26,533	13,266	13,266	332
21	26,533	1,327	27,860	10,000	5,250	4,750	250	27,860	14,626	13,233	332
22	27,860	1,393	29,253	10,000	5,500	4,500	250	29,253	16,089	13,164	331
23	29,253	1,463	30,715	10,000	5,750	4,250	250	30,715	17,661	13,054	329
24	30,715	1,536	32,251	10,000	6,000	4,000	250	32,251	19,351	12,900	326
25	32,251	1,613	33,864	10,000	6,250	3,750	250	33,864	21,165	12,699	323
26	33,864	1,693	35,557	10,000	6,500	3,500	250	35,557	23,112	12,445	317
27	35,557	1,778	37,335	10,000	6,750	3,250	250	37,335	25,201	12,134	311
28	37,335	1,867	39,201	10,000	7,000	3,000	250	39,201	27,441	11,760	303
29	39,201	1,960	41,161	10,000	7,250	2,750	250	41,161	29,842	11,319	294
30	41,161	2,058	43,219	10,000	7,500	2,500	250	43,219	32,415	10,805	283
31	43,219	2,161	45,380	10,000	7,750	2,250	250	45,380	35,170	10,211	270
32	45,380	2,269	47,649	10,000	8,000	2,000	250	47,649	38,120	9,530	255
33	47,649	2,382	50,032	10,000	8,250	1,750	250	50,032	41,276	8,756	238
34	50,032	2,502	52,534	10,000	8,500	1,500	250	52,534	44,653	7,880	219
35	52,534	2,627	55,160	10,000	8,750	1,250	250	55,160	48,265	6,895	197
36	55,160	2,758	57,918	10,000	9,000	1,000	250	57,918	52,126	5,792	172
37	57,918	2,896	60,814	10,000	9,250	750	250	60,814	56,253	4,561	145
38	60,814	3,041	63,855	10,000	9,500	500	250	63,855	60,662	3,193	114
39	63,855	3,193	67,048	10,000	9,750	250	250	67,048	65,371	1,676	80
40	67,048	3,352	70,400	10,000	10,000	0	250	70,400	70,400	0	42