

New Zealand Accounting Standards Board

MEETING PACK

for

NZASB Meeting - 129 Public

Thursday, 11 June 2026

9:00 am (NZST)

Held at:

Generator Britomart

Level 10/11 Britomart Place, Auckland Central, Auckland 1010

INDEX

Cover Page

Index

Agenda

Attached Documents:

8.1 a	Board memo binding arrangement principle (part 2).....	6
8.1 b	Board memo IPSASB application group submission technical analysis.....	33
8.1 c	IAG submission letter.....	51
10.1 a	Board memo making materiality judgements phase 2.....	58
10.1 b	Draft comment letter making materiality judgements phase 2.....	66
10.1 c	IPSASB ED 97 making materiality judgments BP.....	77
12.1 a	Board memo tangible natural resources held for conservation PBE policy approach.....	119
12.1 b	IPSAS 51 tangible natural resources held conservation BP.....	134
13.1 a	Board memo IASB projects and ASAF update june 2026.....	187
13.1 b	Board memo IPSASB projects update june 2026 (1).....	193

AGENDA

NZASB MEETING - 129 PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Thursday, 11 June 2026
Time:	9:00 am to 4:15 pm (NZST)
Location:	Generator Britomart, Level 10/11 Britomart Place, Auckland Central, Auckland 1010
Guests/Notes:	Attendees: Carolyn Cordery (Committee Chair), Bede Carran , David Pacey , Keith Kendall, Lara Truman, Nicky Haslam, Richard Perry, Richard Smyth, Sheree Ryan, Alex Stainer, Carly Berry, Gali Slyuzberg, Leana van Heerden, Michelle Lombaard, Nimash Bhikha, Raveen Kaur, Tereza Bublikova, Wendy Venter

Guests: Kathryn Waugh (all agenda items), John Kensington (all agenda items)

1. Non-Public Session
- 1.1 **Non-Public Session** 9:00 am (10 min)
2. Non-Public Session
- 2.1 **Non-Public Session** 9:10 am (40 min)
3. Non-Public Session
- 3.1 **Non-Public Session** 9:50 am (60 min)
4. Break
- 4.1 **Break** 10:50 am (15 min)
5. Non-Public Session
- 5.1 **Non-Public Session** 11:05 am (80 min)
6. Lunch
- 6.1 **Lunch** 12:25 pm (30 min)

7. Non-Public Session

7.1 Non-Public Session 12:55 pm (45 min)

8. PBE IPSAS 47 Revenue and PBE IPSAS 48 Transfer Expenses

8.1 PBE IPSAS 47 Revenue and PBE IPSAS 48 Transfer Expenses 1:40 pm (60 min)

For Decision

Supporting Documents:

8.1.a	Board Memo - Binding Arrangement principle (Part 2).pdf	6
8.1.b	Board Memo - IPSASB Application Group submission - technical analysis.pdf	33
8.1.c	IAG Submission Letter.pdf	51

9. IPSASB CP Presentation of Financial Statements

9.1 IPSASB CP Presentation of Financial Statements 2:40 pm (15 min)

Late papers:

Board memo

Draft comment letter

IPSASB CP Presentation of Financial Statements

IPSASB Illustrative ED

10. IPSASB Materiality - Phase 2

10.1 IPSASB Materiality - Phase 2 2:55 pm (15 min)

For Discussion

Supporting Documents:

10.1.a	Board memo - Making materiality judgements - Phase 2.pdf	58
10.1.b	Draft comment letter - Making materiality judgements Phase 2.pdf	66
10.1.c	IPSASB-ED-97-Making-Materiality-Judgments - BP.pdf	77

11. Break

11.1 Break 3:10 pm (15 min)

12. PBE Policy Approach - IPSAS 51 Tangible Natural Resources held for Conservation

12.1 PBE Policy Approach - IPSAS 51 3:25 pm (30 min)

For Decision

Supporting Documents:

12.1.a	Board memo - Tangible Natural Resources Held for Conservation PBE Policy Approach.pdf	119
12.1.b	IPSAS-51-Tangible-Natural-Resources-Held-Conservation - BP.pdf	134

13. International Influence

13.1 International Influence

3:55 pm (10 min)

For Discussion

Supporting Documents:

13.1.a	Board memo - IASB projects and ASAF update - June 2026.pdf	187
13.1.b	Board memo - IPSASB projects update - June 2026 (1).pdf	193

14. Non-Public Session

14.1 Non-Public Session

4:05 pm (10 min)

15. Close Meeting

15.1 Close meeting

Next meeting: NZASB meeting - 130 - 6 Aug 2026, 9:00 am

Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **Revenue and Transfer Expenses: Analysis of stakeholder feedback on the binding arrangement principle (part 2)**

Date: 29 May 2026

Prepared by: Carly Berry and Leana van Heerden

Through: Gali Slyuzberg; Nimash Bhikha; Michelle Lombaard

Action Required **For Information Purposes Only**

COVER SHEET

Project priority and complexity

Domestic project purpose	Develop new PBE Standards for revenue and transfer expenses using IPSAS 47 <i>Revenue</i> and IPSAS 48 <i>Transfer Expenses</i> as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand.
Cost / benefit considerations	The Board discussed these considerations at the June 2023 and December 2024 meetings, and the consultation documents included specific questions on this matter. Feedback received from respondents will assist the Board in determining whether the proposals should proceed to final PBE Standards.
Project priority	High The proposed new PBE Standards address the accounting for revenue and transfer expense transactions, which are prevalent and significant across both the not-for-profit (NFP) and public sectors.

Overview of agenda item

Project status	<p>The diagram illustrates the project timeline. It starts with a 'Consultation Paper' (grey box) leading to an 'Exposure Draft' (grey box) for the 'International' phase. This is followed by an 'International pronouncement' (grey box) and a 'PBE policy approach' (grey circle). The 'New Zealand' phase begins with a 'Domestic Exposure Draft' (grey box), followed by a 'Due Process' (green box), and finally a 'Final NZ pronouncement' (white box). 'Comment letters' (grey circles) are shown as inputs between the 'Exposure Draft' and 'International pronouncement' stages.</p>
Board action required	High complexity <ul style="list-style-type: none"> AGREE with our recommended actions in response to stakeholder feedback on certain aspects of the binding arrangement principle.

Purpose and introduction¹

1. The Revenue and Transfer Expenses projects were added to the work plan in June 2023, when the Board agreed to develop new PBE Standards for revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.
2. In June 2025 we published ED PBE IPSAS 47 *Revenue* (revenue ED) and ED PBE IPSAS 48 *Transfer Expenses* (transfer expenses ED) (collectively, the EDs) for public consultation over a six-month period, closing on 1 December 2025. At the April 2026 meeting, the Board started to consider our analysis of, and recommended actions in response to, the stakeholder feedback received on these consultations.
3. In this agenda item, we present the second part of our analysis of the stakeholder feedback relating to the **binding arrangement principle**, as well as our recommended actions in response.
4. Agenda item 8.1c sets out our recommendations on the potential IPSASB Application Group matters that the Board considered at the April meeting.

Recommendations

5. We recommend that the Board:
 - (a) **AGREES** with our recommended actions in response to stakeholder feedback on certain aspects of the binding arrangement principle; and
 - (b) **AGREES** with the proposed location of Implementation Guidance (IG) paragraph B.2 within the Application Guidance section of both EDs.

Summary of recommended actions

6. We recommend the following actions in relation to the feedback received:

No further action	<ul style="list-style-type: none"> • Examples on potential intragroup challenges, whereby the resource provider and recipient in the same binding arrangement are part of the same group but come to different conclusions on their binding arrangement assessments. • Example whereby the transfer provider has an enforceable right but not an enforceable obligation.
Providing adoption and implementation support	<ul style="list-style-type: none"> • To assist entities on the thought process to follow for the five-step revenue recognition model for binding arrangements.
Including the following matters within the adoption and implementation support	<ul style="list-style-type: none"> • General observations on implementation challenges relating to the binding arrangement principle (including those relating to Tier 2 NFPs in particular). • General observations and challenges relating to contracting practices.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

<p>for other matters agreed by the Board in April 2026</p>	<ul style="list-style-type: none"> • The need to apply materiality when accounting for all arrangements under the proposed standards. • Consideration of whether the same (or similar) enforcement mechanisms apply across all arrangements, whether material or not, as this could help to ease the implementation and ongoing costs of the binding arrangement assessment. • Highlighting the guidance in paragraphs AG22 – AG23 in the revenue ED and paragraphs AG23 – AG24 in the transfer expenses ED (relating to future funding). • Considering whether a checklist or flowchart, setting out the considerations when making a binding arrangement assessment, should be developed.
<p>An addition to the authoritative text</p>	<ul style="list-style-type: none"> • Amend paragraph 5 in the transfer expenses ED, to clarify the scope of the ED as it relates to binding arrangements.
<p>Addressing the following matters through amendments to the authoritative text of both EDs, as agreed by the Board in April 2026</p>	<ul style="list-style-type: none"> • General requests for more illustrative examples to support implementation. [Relocation of IG paragraph B.2 and amendments to paragraph AG12 in both EDs] • Adding additional fact pattern to Example 1 in the revenue ED, to depict the scenario where there is specific reporting to the Government, but no specified time period. [Relocation of IG paragraph B.2 in both EDs] • Including Example 1 from the revenue ED into the transfer expenses ED, to depict how the scenarios would apply from the perspective of the transfer provider. [Relocation of IG paragraph B.2 in both EDs] • Guidance on whether an arrangement is binding when the resource recipient has no enforceable obligation (or the enforceable obligation is not enforced by the resource provider). [Relocation of IG paragraph B.2 in both EDs]

Structure of this agenda item

7. This memo includes following sections:
- [Overview of the binding arrangement principle](#)
 - [Process followed to analyse stakeholder feedback](#)
 - [Topic 5: General implementation challenges](#)
 - [Topic 6: Contracting practices](#)
 - [Topic 7: Other](#)
 - [Proposed drafting for the relocation of IG paragraph B.2](#)
 - [Next steps](#)
 - [Appendix 1: Extract from ED PBE IPSAS 47 and ED PBE IPSAS 48 – for context to the relocation of IG paragraph B.2](#)
 - [Appendix 2: Summary of Board decisions on feedback analysis](#)

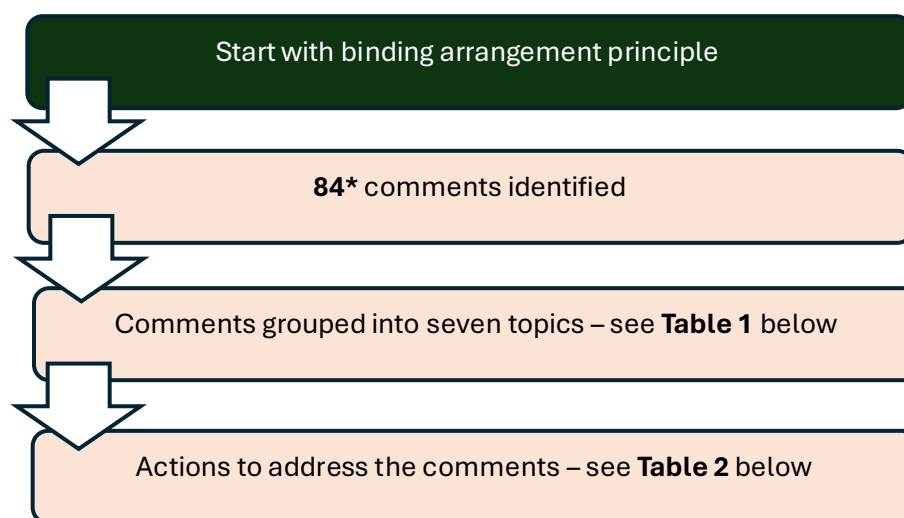
8. The following agenda item accompanies this memo as supporting information:
- (a) Agenda item 8.1b: Detailed compilation of stakeholder feedback on the binding arrangement principle (Board-only).

Overview of the binding arrangement principle

9. A **binding arrangement** is an *arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.*
10. For a further overview, please refer to pages 33 – 34 of the [April 2026 NZASB public board pack](#).

Process followed to analyse stakeholder feedback

11. This process is discussed on pages 34 – 36 of the [April 2026 NZASB public board pack](#). A summary of the process is set out below.



* At the April 2026 meeting, this number was reported to be 87. Upon further reflection since that meeting, we decided that certain comments still to be considered do not specifically relate to the binding arrangement principle. These comments will therefore be addressed at a future meeting when the Board considers the topic to which they more appropriately relate.

Table 1 – 84 comments grouped according to subject matter

Topic	Number of comments	Paragraph ref in this memo
1. Concept of a binding arrangement	14	Discussed at the April 2026 NZASB meeting (pages 31 – 58)
2. Enforceability principle	17	
3. Rights and obligations	9	
4. Oral or implied arrangements	7	
5. General implementation challenges	20	13 – 25
6. Contracting practices	9	26 – 29
7. Other	8	30 – 50
Total	84	

Note:

- Grey highlighted rows are addressed at this meeting
- A single comment from a stakeholder may be split among two or more topics.
- A respondent may have made several comments relating to the same topic.

Table 2 – Options for recommended actions

A	Addition/amendment to authoritative text within the ED(s) (i.e. core text or Application Guidance paragraphs)
B	Addition/amendment to non-authoritative text within the ED (i.e. Implementation Guidance paragraphs, illustrative examples, Basis for Conclusion paragraphs)
C	Adoption and implementation support
D	Refer to the IPSASB Application Group
E	No further action required

12. Agenda item 8.1b sets out all the comments received on the binding arrangement principle, with each given a unique number for reference purposes.

Topic 5: General implementation challenges

13. The 20 comments within this topic relate to stakeholders' views on the challenges associated with implementation of the proposals relating to the binding arrangement principle. Although some of these comments may echo views heard during the analysis of other topics, they are considered here because they are more general in nature – i.e., they do not relate to a specific aspect of the binding arrangement principle.

Topic: General implementation challenges			
Comments by sector and ED			
	Public sector	Not-for-profit	Both
Revenue ED	3	2	2
Transfer expenses ED	1	1	1
Both EDs	6	2	2

Topic: General implementation challenges	
Respondent	Number of comments
Treasury	2
Auckland Council	2
CAANZ	1
Greater Wellington Regional Council	1
Outreach feedback	14
Total	20

Analysis and recommended actions

14. Of the 20 comments:

- (a) Seven make general observations about implementing the binding arrangement principle.
- (b) Five made general requests for more illustrative examples and/or other guidance to support implementation.

Further analysis and recommended actions on these comments are set out in paragraphs 16 – 25 below.

15. The remaining eight comments highlight the challenges involved in assessing high volumes of arrangements. Due to the uncertainty about the extent to which the application of the principles in the EDs are expected to be made at an individual arrangement level, at the April 2026 meeting we recommended (and the Board agreed) to progress further investigation of this matter as a potential query to the IPSASB Application Group. After discussion with IPSASB staff and the NZASB sub-committee, we have decided to recommend **not** to progress with a query to the IPSASB Application Group (see agenda item 8.1b for more detail). If the Board agrees with that recommendation, we will develop and present our recommended actions in response to the feedback to the Board at a future meeting (when we provide an updated cost/benefit assessment of these proposed standards).

General observations about implementing the binding arrangement principle (comment #3, 7, 21, 62, 63, 68 and 82)

16. Most of these seven comments note, at a high-level, that application of the binding arrangement principle will (or may) be challenging. One respondent noted that it takes time to read through a contract and that there is no way to avoid this. Another respondent noted that interaction between preparers and auditors will be crucial for successful adoption but does not go into more detail.
17. This feedback echoes (albeit in a more general, non-specific way) the feedback on cost and judgement that we analysed and presented to the Board at the April 2026 meeting (see paragraphs 19 – 25 of [agenda item 9.1a](#) from that meeting). Our recommendation for addressing that feedback² – to provide adoption and implementation support – will therefore apply to this feedback as well. As noted in April 2026, such support may include:
- (a) Holding dedicated workshops / roundtables aimed at exploring the application of the principle in real-time, with opportunities for stakeholders to engage with one another and with leaders within the sectors. We would look to co-host these types of events with practitioners, umbrella groups within the sectors, or other parties in

² The Board agreed with our recommendation to provide adoption and implementation support as noted in paragraphs 23-24 in agenda item 9.1a (April 2026). The Board also agreed to amend paragraph AG12 in both EDs to provide a New Zealand context to the discussion of 'equivalent means' mechanisms in that paragraph.

the ecosystem in order to ensure a combined effort across the financial reporting landscape.

- (b) Developing webcasts and / or webinars to spotlight areas of the standards which could help with implementation.

Recommended action

C	Adoption and implementation support – as part of the support agreed by the Board in April 2026
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18. As noted in April 2026, we intend to explore additional transitional provisions to help with the costs of implementation, as well as other mechanisms such as a later mandatory date for the proposed standards. This would require amendments to the authoritative text of one or both EDs. Any amendments that we decide to recommend would be brought to the Board for consideration and approval at a future meeting.

Question for the Board:

- Q1.** Does the Board **AGREE** with the recommended action in paragraph 17?

General requests for more illustrative examples and/or other guidance to support implementation

General requests for more illustrative examples to support implementation (comment #30, 35 and 40)

19. These three comments generally note that more illustrative examples would be important and helpful for entities when assessing whether an arrangement is binding or not.
20. We note that the EDs already contain illustrative examples on determining whether an arrangement is binding or not. The revenue ED has seven examples on this subject (Examples 1–7), and the transfer expenses ED has two examples (Examples 3 and 4). We acknowledge that examples can be helpful in illustrating the application of the fundamental principles in the proposed standards. At the same time, it would not be practical to develop examples for every possible circumstance that may arise in practice. We therefore think any additional examples should focus on New Zealand-specific situations and be relevant to a broad range of entities, or to a particular sector or sub-sector, such as local government. Our discussions with stakeholders to date (see paragraph 22) have not yet identified examples of that kind.
21. We also note that in April 2026 the Board agreed to amend paragraph AG12 in both EDs to expand on New Zealand-specific enforcement mechanisms, as well as to relocate IG paragraph B.2 to the authoritative text in both EDs. Both these decisions should help entities apply the requirements when making binding arrangement assessments.
22. For these reasons, we do not recommend taking any further action to address this feedback, beyond what has already been agreed at the April 2026 meeting (see paragraph 21 above). However, we are currently in the process of meeting with the eight submitters

to the consultation, to discuss their feedback in more detail and specifically requested types of transactions we should consider adding examples for. As part of these meetings, we are seeking their views on the New Zealand-specific situations that affect particular sectors or sub-sectors of entities, and whether appropriate illustrative examples can be developed to reflect these situations. If the outcome of these meetings suggests that adding one or more such examples would be appropriate, we will bring an updated recommendation to the Board at a future meeting.

Recommended action

A	Relocation of IG paragraph B.2 to the authoritative text and amendments to paragraph AG12 in both EDs, as agreed at the April 2026 meeting
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Question for the Board:

Q3. Does the Board **AGREE** with the recommended action in paragraph 22?

General requests for guidance to support implementation (comment #73 and 75)

23. One respondent specifically noted the challenges for Tier 2 NFPs and suggested that we clarify that there is a high bar for an arrangement to be binding (and therefore most grants and arrangements that Tier 2 NFP entities have may be without binding arrangements). The same respondent also suggested that a checklist might be helpful to assist entities in assessing whether their arrangements are binding or not.
24. We acknowledge that Tier 2 NFPs are likely to be resource-constrained and will therefore require support. However, we do not think it would be appropriate to specify that Tier 2 NFPs will likely enter into arrangements that are not binding, as entities must make this determination using their own judgement.
25. We note that this feedback echoes the concerns about the cost and resourcing implications of applying the binding arrangement principle that the Board considered in April 2026 (see pages 37 – 38 of the [April 2026 NZASB public board pack](#)). Therefore, as part of the adoption and implementation support that the Board has already agreed to (see paragraph 17), we will consider whether a checklist or flowchart, setting out the considerations when making a binding arrangement assessment, could be helpful in assisting all Tier 1 and Tier 2 PBEs (not just Tier 2 NFPs) with making this judgement.

Recommended action

C	Adoption and implementation support – as part of the support agreed by the Board in April 2026
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Question for the Board:

Q4. Does the Board **AGREE** with the recommended action in paragraph 25?

Topic 6: Contracting practices

26. The nine comments within this topic relate specifically to stakeholders' views on the impact of the proposals on contracting practices.

Topic: Contracting practices			
Comments by sector and ED			
	Public sector	Not-for-profit	Both
Revenue ED	0	0	0
Transfer expenses ED	0	0	0
Both EDs	3	3	3

Topic: Contracting practices	
Respondent	Number of comments
Outreach feedback	9
Total	9

Analysis and recommended actions (comment #1, 8, 13, 36, 54, 57, 69, 77 and 78)

27. Of the nine comments:
- Three noted the benefits of the binding arrangement principle from the perspective of better record-keeping, reduction of time spent trying to figure out how to present contracts and general improvement in contracting practice. (These are positive comments and therefore do not require considering changes to the proposals).
 - Two note the need for collaboration between various teams in an organisation and the need to educate those writing the contracts.
 - One suggests that the education around the proposed standards should encourage entities to make sure their documentation is concise, clear and to the point.
 - Two note the challenges with certain contracts and practices, such as vague terms in outcomes-based contracts, undocumented terms and manual inputs in spreadsheets.
 - One notes initial implementation costs with respect to parties drafting more concise documentation.
28. We note that these comments relate to operational aspects of an entity's reporting, rather than the technical requirements (or the application of the technical requirements). We also note that the intention of the EDs (and accounting requirements in general) is not to change contracting practices to achieve a particular outcome, but rather to reflect the

economic substance of transactions. Therefore, one option to address this feedback would be to take no further action. However, to the extent this feedback aligns with areas for which the Board has already agreed to provide adoption and implementation support, we recommend addressing these points within that existing support. In particular, this could include highlighting, through agreed support mechanisms (for example, roundtables or webinars), that implementation of the proposed standards may require input from non-finance teams within organisations, particularly in relation to contracting practices. To avoid providing advice on operational aspects of an entity's finance function, we would share the messages heard from respondents in this consultation, rather than create our own guidance on these matters.

29. This recommendation is similar to the one we made on the feedback relating to oral and implied arrangements at the April 2026 meeting (paragraph 60 in [agenda item 9.1a](#)).

Recommended action

C	Adoption and implementation support – as part of the support agreed by the Board in April 2026
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Question for the Board:

- Q5.** Does the Board **AGREE** with the recommended action in paragraph 28?

Topic 7: Other

30. The eight comments within this topic either:
- relate to various aspects of the binding arrangement principle, other than those considered in the other six topics; or
 - were not considered in April 2026 as part of Topics 1 – 4, for whatever reason.

Topic: Other			
Comments by sector and ED			
	PS	NFP	Both
Revenue ED	0	0	3
Transfer expenses ED	1	0	4
Both EDs	0	0	0

Topic: Other	
Respondent	Number of comments
Deloitte	4
CAANZ	2
Outreach feedback	2
Total	8

Analysis and recommended actions

31. Of the eight comments:

- (a) One highlights potential intragroup challenges when resource providers and recipients, within the same group, are parties to the same arrangement but reach different conclusions on their binding arrangement assessments.
- (b) Three identify specific illustrative examples where further fact patterns and guidance would be helpful.
- (c) One requests examples illustrating the application of the guidance in paragraph AG22 – AG23 in the revenue ED (i.e. relating to future funding).
- (d) One requests an illustrative example whereby the transfer provider has an enforceable right but not an enforceable obligation.
- (e) One notes that funding provided by a council, but not fully spent, may be unlikely to be requested back.
- (f) One identifies challenges in understanding the scope of the transfer expenses ED as it specifically relates to binding arrangements.

Further analysis and recommended actions on these comments are set out in paragraphs 32 – 50 below.

Potential intragroup challenges (comment #50)

32. This comment notes that transaction mirroring is not required (i.e. the resource provider’s accounting treatment for an arrangement need not necessarily mirror the transfer recipient’s treatment for the same arrangement), but asymmetry in binding arrangement assessments between resource providers and recipients in the same group may cause challenges when preparing consolidated financial statements.
33. We acknowledge the respondent’s concern. However, this comment has not highlighted any concerns with the binding arrangement principle itself, which is the same across both EDs. In addition, we have not identified any guidance that we could provide within the proposed standards or externally, as this concern relates to the mechanism of consolidation, which is an operational matter. For these reasons, we do not recommend taking any action to address this feedback.

Recommended action

E	No further action required
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Question for the Board:

Q6. Does the Board **AGREE** with the recommended action in paragraph 33?

Specific illustrative examples where further fact patterns and guidance would be helpful (comment #76, 79 and 80)

34. Table 3 sets out our analysis of these comments.

Table 3

Illustrative example	Request from respondent	Analysis and recommended action		
<p>Revenue ED</p> <p>Illustrative examples covering transactions with binding arrangements</p>	<p>Comment #76</p> <p>More guidance on the thought process / rationale for the judgements in Step 1 (confirm binding arrangement model criteria are met) and Step 2 (identify compliance obligations) of the five-step revenue recognition model.</p>	<p>Within the revenue ED, Examples 9 – 12 illustrate the application of Step 1 and Examples 16 – 19 illustrate the application of Step 2. In these examples, there is already some discussion on the rationale for the judgements under Step 1 and Step 2 of the five-step revenue recognition model. For example:</p> <ul style="list-style-type: none"> • In Example 9, which relates to Step 1, a social housing agency sells a house to a resident under a certain programme. The example says that the binding arrangement model criteria per paragraph 56 are not met, and explains that this is because “it is not probable that [the entity] will collect the consideration to which it is entitled in exchange for the transfer of the building” – which is because the resident is expected to pay only part of the consideration before reaching superannuation age, at which point he is expected (and entitled) to cease payments. • In Example 16, which relates to Step 2, a shared IT services agency enters into a binding arrangement to transfer a software licence and provide installation services and software updates to the central Government. Paragraphs IE69 and IE70 in that example discuss in detail why the agency considers the software, installation services and updates to be distinct and separately identifiable in accordance with paragraph 73 of the ED – noting, for example, that the software is transferred before any of the other services and is functional without the updates, and that “the installation services do not significantly affect the Government’s ability to use and generate economic benefits or service potential from the software licence because the installation services are routine and can be obtained from alternative providers”. <p>Therefore, we do not consider it to be useful to add anything further to them.</p> <p>Instead, as part of our educational material when the final standards are issued, we intend to make available our existing educational support, including the Overview of the binding arrangement and ED PBE IPSAS 47 Revenue five-step revenue recognition model webcasts, on our webpage. These materials will be updated for the final standards, as necessary.</p> <p>Recommended action</p> <table border="1" data-bbox="683 1955 1385 2022"> <tr> <td data-bbox="683 1955 738 2022">C</td> <td data-bbox="738 1955 1385 2022">Adoption and implementation support</td> </tr> </table>	C	Adoption and implementation support
C	Adoption and implementation support			

Illustrative example	Request from respondent	Analysis and recommended action		
<p>Revenue ED Example 1</p>	<p>Comment #79 Add an additional fact pattern where there is specific reporting to the Government, but no specified time period.</p>	<p>We note that we addressed a matter relating to Example 1 at the April meeting (see Table 2, row 2 on page 186 in agenda paper 9.1a). The recommendation relating to that matter is to relocate IG paragraph B.2 from the non-authoritative text to the authoritative text (See Appendix 1 in agenda item 9.1a for the full text of IG paragraph B.2).</p> <p>Although we acknowledge that it may be useful to some entities to add an additional fact pattern to Example 1, we consider the current wording of Example 1 (together with the relocation of IG paragraph B.2) to be sufficient to assist all entities with their enforceability assessments.</p> <p>Recommended action</p> <table border="1" data-bbox="683 745 1385 842"> <tr> <td style="background-color: #f08080; text-align: center;">A</td> <td>Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting</td> </tr> </table>	A	Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting
A	Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting			
<p>Revenue ED Example 1</p>	<p>Comment #80 Include Example 1 from the revenue ED into the transfer expenses ED to show how the scenarios would apply from the perspective of the transfer provider.</p>	<p>We note that the transfer expenses ED already contains Example 3, which illustrates a fact pattern whereby an agreement does not confer an enforceable right on the transfer provider, only an enforceable obligation. While we acknowledge that Example 3 in the transfer expense ED is briefer and does not contain different sub-scenarios like Example 1 in the revenue ED, this example still illustrates the application of the binding arrangement principles from a transfer expenses perspective. Similar to the revenue ED, we will also be relocating IG paragraph B.2 from the non-authoritative text to the authoritative text in the PBE IPSAS 48. Therefore, we do not consider that adding Example 1 from the revenue ED will add much further benefit.</p> <table border="1" data-bbox="683 1335 1385 1424"> <tr> <td style="background-color: #f08080; text-align: center;">A</td> <td>Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting</td> </tr> </table>	A	Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting
A	Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting			

Question for the Board:

Q7. Does the Board **AGREE** with the recommended actions in Table 3?

Request for examples illustrating the application of the guidance in paragraph AG22 – AG23 in the revenue ED (i.e. relating to future funding) (comment #83)

35. We discussed this request further with the respondent. The respondent noted that it would be helpful to have more examples on how close the link between current and future funding needs to be in order for there to be an enforceability mechanism. Entities may interpret enforceability too widely when it comes to the possibility that future funding will not be available if a certain level of performance is not achieved in current arrangements.

36. Both EDs acknowledge that a recipient of funding may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In summary, paragraphs AG22 – AG23 in the revenue ED [AG23 – AG24 in the transfer expenses ED] state that:
- (a) Determining whether a reduction of future funding is an enforcement mechanism requires the application of judgement.
 - (b) The ability to reduce or withhold future funding to which the entity is **not** presently entitled would **not** be considered a valid enforcement mechanism in the context of the revenue ED, as there is no obligation on the resource provider to provide such funding.
 - (c) If the entity is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the reduction in future funding **could** be considered a valid enforcement mechanism.
 - (d) Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are: (a) the resource provider’s ability to reduce future funding and (b) its past history of doing so.
37. We consider that both EDs are clear on to what extent a potential reduction of future funding results in an enforceability mechanism. Developing examples to broadly illustrate the requirements in AG22 – AG23 in the revenue ED [AG23 – AG24 in the transfer expenses ED] would likely not add much additional benefit. Examples depicting specific scenarios would likely only benefit the few entities to which those scenarios are applicable.
38. For the reasons set out above, we do not recommend developing examples to illustrate the guidance around future funding. However, as part of the support already agreed by the Board in April (and referenced in paragraph 17 of this memo), we recommend highlighting the requirements in the abovementioned paragraphs.

Recommended action

C	Adoption and implementation support – as part of the support agreed by the Board in April
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Question for the Board:

Q8. Does the Board **AGREE** with the recommended action in paragraph 38?

Request for an illustrative example whereby the transfer provider has an enforceable right but not an enforceable obligation (comment #84)

39. Implementation Guidance paragraph C.1 in the transfer expenses ED notes that it is possible for the transfer provider to have an enforceable right but no enforceable

obligation – and therefore, the transfer would result in the recognition of an asset which would be derecognised when or as the enforceable right is extinguished. This asset would not be a transfer right asset because there is no binding arrangement.

40. The transfer expenses ED does not currently contain an illustrative example depicting such a scenario. The respondent who raised this comment did not provide us with an example either. After further discussion with them, they noted that a lot of arrangements fail the ‘enforceable return’ obligation – resulting in immediate expense recognition.
41. Based on the above, we recommend taking no further action at this time. However, we are currently in the process of meeting with the eight submitters to the consultation, to discuss their feedback in more detail. As part of these meetings, we will seek more information on possible scenarios where a transfer provider has an enforceable right to the transfer recipient’s performance, but not an enforceable obligation to provide funding. If the outcome of these meetings suggests that adding an example would be appropriate, we will bring an updated recommendation to the Board at a future meeting.

Recommended action

E	No further action required
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Question for the Board:

Q9. Does the Board **AGREE** with the recommended action in paragraph 41?

Unspent funds not requested back (comment #66)

42. The respondent noted that, for example, if a council provides funding of \$50,000 and only \$30,000 is spent as intended, it is often unlikely that the unspent amount will be recovered. This raises a potential question as to whether there is a binding arrangement (and therefore, how it would be recognised).
43. This matter appears to be similar to one that we explored in the April meeting – that is, where a resource recipient’s obligation is enforceable, but the consequences are not being enforced. In response to that matter, we recommended (and the Board agreed) to relocate IG paragraph B.2 into the authoritative text of both proposed standards (see Table 2, row three on pages 49 – 50 in [agenda item 9.1a](#) from the April meeting).
44. The respondent’s fact pattern may also be referring to a situation where the transfer recipient does not have an enforceable obligation to perform. In such a situation, there would be no binding arrangement. Both EDs are clear on the accounting for such a situation – that is, there would be no binding arrangement and the recognition and measurement requirements for transactions without binding arrangements in the relevant ED apply.
45. Based on our analysis above, we recommend taking no further action with respect to this feedback, beyond what has already been agreed at the April meeting.

Recommended action

A	Relocation of IG paragraph B.2 to the authoritative text, as agreed at the April 2026 meeting
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Question for the Board:

Q10. Does the Board **AGREE** with the recommended action in paragraph 45?

Challenges in understanding the scope of the transfer expenses ED as it specifically relates to binding arrangements (comment #81)

46. This respondent notes that paragraph 5 in the transfer expenses ED says that a binding arrangement may be partially within scope of the ED and partially within the scope of another standard – and notes that it is unclear what this applies to.
47. Paragraph 5 states that:
- A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:*
- (a) If the other Standards specify how to separately recognise and/or initially measure one or more parts of the binding arrangement, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 18–43 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and*
- (b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the entity shall apply this Standard to the entirety of the binding arrangement.*
48. We note that the wording in paragraph 5 is substantively similar to [paragraph 7](#) in NZ IFRS 15 *Revenue from Contracts with Customers*. A key difference between paragraph 5 in the transfer expenses ED and paragraph 7 of NZ IFRS 15 is that paragraph 7 specifically states that: *A contract with a customer may be partially within the scope of this Standard and partially within the scope of other Standards **listed in paragraph 5*** [emphasis added]. Paragraph 5 of NZ IFRS 15 notes that certain types of contracts with customers are excluded from the scope of NZ IFRS 15 – and this list contains certain contracts in the scope of other NZ IFRSs, e.g. leases in the scope of NZ IFRS 16 *Leases* and insurance contracts in the scope of NZ IFRS 17 *Insurance Contracts*, among others.
49. We consider that a similar specification in the transfer expenses ED (i.e. a reference to paragraph 4 within paragraph 5) would help to clarify the requirements. Paragraph 4 states that:
- This Standard does not apply to: (a) Leases as defined in PBE IPSAS 13 *Leases*; (b) Contributions from, and distributions to, owners; (c) Service concession arrangements as*

defined in PBE IPSAS 32 Service Concession Arrangements: Grantor; (d) Employee benefits as defined in PBE IPSAS 39 Employee Benefits; (e) Financial instruments, including concessionary loans, as defined in PBE IPSAS 41 Financial Instruments; (f) [Not used] (g) Insurance contracts within the scope of PBE IFRS 17 Insurance Contracts; (h) Share-based payments (see the international or national accounting standard dealing with share-based payments); and (i) Income taxes within the scope of PBE IAS 12 Income Taxes.

50. We recommend amending paragraph 5 in the transfer expenses ED as follows to enhance the clarity of this requirement (proposed new wording in bold):

*A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards **listed in paragraph 4...***

Recommended action

A

Addition/amendment to **authoritative text** within the transfer expenses ED

Question for the Board:

- Q11.** Does the Board **AGREE** with our proposed amendment to paragraph 5 in the transfer expenses ED (as set out in paragraph 50)?

Proposed drafting for the relocation of IG paragraph B.2

51. At the April 2026 meeting, the Board agreed with our recommendation to move IG paragraph B.2 (in both EDs) to the Application Guidance (AG) section of the EDs. As noted in agenda item 9.1a from the April meeting (pages 46 – 47 of the [April 2026 NZASB public board pack](#)):

We consider that there is benefit in bringing paragraph B.2 from the non-authoritative Implementation Guidance into the authoritative text of PBE IPSAS 47, so that it is included in the authoritative Application Guidance section on enforceability, i.e. paragraphs AG14-AG25. IG paragraph B.2 explains that in assessing the enforceability of an arrangement, enforceability may arise from various mechanisms and an entity needs to use judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations, and the consequences of not satisfying these obligations. Paragraph B.2 also sets out relevant factors to consider in making this assessment, however, these factors are not intended to be exhaustive.

Bringing B.2 into the authoritative application guidance would help to make it clear to preparers, via authoritative text, that the assessment of enforceability may not be dependent on a single enforcement mechanism or factor, but rather on the consideration of all enforcement mechanisms and relevant factors collectively. This in turn should help in understanding that the absence of explicit timeframes does not, on its own, automatically prevent obligations from being enforceable. We also note that paragraph B.2 usefully brings together several aspects of the enforceability requirements and

guidance in the standard, and bringing it into the authoritative part of the standard can be useful in addressing other matters raised by respondents (see below).

We recommend the same course of action for ED PBE IPSAS 48 Transfer Expenses, which also includes paragraph B.2 in its Implementation Guidance.

52. To action this Board decision, we have:
- (a) deleted IG paragraph B.2 from the IG sections of both EDs; and
 - (b) added a New Zealand application guidance paragraph (AG25.1) to both EDs.
53. The wording of paragraph AG25.1 is substantively unchanged from the wording of IG paragraph B.2. Refer to [Appendix 1](#) for the draft wording and its location with respect to the relevant AG paragraphs in both EDs.

Question for the Board:

Q12. Does the Board **AGREE** with the proposed relocation of IG paragraph B.2 and the proposed drafting of paragraph AG25.1 for both proposed standards?

Next steps

54. We have now concluded most of our assessment of the feedback relating to the binding arrangement principle. As noted in this agenda item, we will bring recommendations to a future meeting on the following matters, **only if the feedback gathered on further outreach suggests that this would be appropriate:**
- (a) Developing appropriate illustrative examples to reflect common New Zealand-specific situations that affect particular sectors or sub-sectors of entities.
 - (b) Adding an illustrative example to the transfer expenses ED to reflect a situation where the transfer provider has an enforceable right to the transfer recipient's performance but no enforceable obligation to provide the funding.
55. The next step in these projects is to focus on the feedback received on the costs and benefits of these proposed standards. As noted in this agenda item, we are meeting with the eight submitters to the consultations to discuss their feedback. The primary focus of these meetings (at this stage) is to delve deeper into their feedback on the expected costs and benefits, to help inform any recommendations we make to the Board at future meetings.
56. Once the cost-benefit analysis is reconsidered by the Board, our focus will be to create a detailed timeframe for analysing and addressing the rest of the feedback on the EDs.

Appendix 1: Extracts from ED PBE IPSAS 47 and ED PBE IPSAS 48 – for context to the relocation of IG paragraph B.2

Note for the Board: The proposed changes are highlighted in blue. Added text is shown in underlined red font, deleted text is shown in ~~struck-through red font~~, and moved text is shown as double-underlined green font.

For context, this Appendix also sets out the relevant AG paragraphs on enforceability. These paragraphs are *not amended*.

ED PBE IPSAS 47 Revenue

[...]

Appendix A

Application Guidance

[...]

Enforceability

- AG14. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG15. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name; however, there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means in which the involved parties enforce each of the respective rights and obligations under the arrangement.
- AG16. An arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:
- (a) Clearly specified rights and obligations for each involved party; and

- (b) Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.
- AG17. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the entity is not able to determine how the mechanisms of enforceability identified would in substance enable the entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG18. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG19. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.
- AG20. Cabinet or ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the stated obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to fulfil the promises established within the arrangement or to seek redress should these promises not be satisfied.
- AG21. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of obligations by an entity, this may result in a valid enforcement mechanism.
- AG22. An entity may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the other party. In general, the ability to reduce or withhold future funding to which the entity is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the resource provider to provide such funding. However, if the entity is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the reduction in future funding could be considered a valid enforcement mechanism.
- AG23. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the resource provider would reduce future funding in the event of a breach of promises made in another binding arrangement are the resource provider's ability to reduce future funding and its past history of doing so.
- AG24. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and an entity (resource recipient).
- AG25. In some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations, but they have not been historically enforced. If past experience with

a resource provider indicates that the resource provider never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and may indicate that such terms do not in substance hold the other entity accountable and the arrangement is not considered enforceable. However, if the entity has no experience with the resource provider, or has not previously breached any terms that would prompt the resource provider to enforce the arrangement, and it has no evidence to the contrary, the entity would assume that the resource provider would enforce the terms, and the arrangement is considered enforceable. An entity should consider any past history of enforcement as one of the relevant factors in its overall assessment of enforceability and whether the entities can objectively be held accountable for enforcing the rights and satisfying the obligations they agreed to in the arrangement.

AG25.1. In applying paragraphs AG14–AG25, an entity considers the following.

- (a) Determining whether an arrangement, and each party’s rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.
- (b) At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:
- (i) The substance, rather than the form, of the arrangement;
 - (ii) Terms that are written, oral, or implied by an entity’s customary practices;
 - (iii) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
 - (iv) Implicit or explicit consequences of not satisfying the obligations in the arrangement;
 - (v) The specific jurisdiction, sector, and operating environment; and
 - (vi) Past experience with the other parties in the arrangement.
- (c) Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

[...]

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 47.

[...]

Section B: Identifying the Revenue Transaction

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations, through legal or equivalent means. In cases where an entity does not have a binding arrangement, it may still have an enforceable right, or an enforceable obligation, which should be accounted for appropriately. Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (d) The substance, rather than the form, of the arrangement;
- (e) Terms that are written, oral, or implied by an entity's customary practices;
- (f) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
- (g) Implicit or explicit consequences of not satisfying the obligations in the arrangement;
- (h) The specific jurisdiction, sector, and operating environment; and
- (i) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG14–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

ED PBE IPSAS 48 *Transfer Expenses*

Application Guidance

This Appendix is an integral part of PBE IPSAS 48.

[...]

Enforceability

- AG15. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the involved parties accountable for the satisfaction of stated obligations. An entity should determine whether an arrangement is enforceable based on whether the entity has the ability to enforce the rights and the obligations. The entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
- AG16. Since enforceability can arise from various mechanisms, an entity should objectively assess all relevant factors to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name, but there are alternative processes with equivalent effect to legal arrangements (described as enforceable through equivalent means). For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal systems, that is similar to the force of law without being legal in nature, is required to establish the right of the entity to obligate the transfer recipient to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system, that is similar to the force of law without being legal in nature, is required to establish the right of the transfer recipient to obligate the entity to pay the agreed consideration. Thus, an entity should identify and assess all relevant factors by considering legal or equivalent means by which the involved parties enforce each of the respective rights and obligations under the arrangement.
- AG17. An arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:
- (a) Distinct rights and obligations for each involved party; and
 - (b) Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.
- AG18. When an entity assesses enforceability, the entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
- AG19. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts in a jurisdiction, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
- AG20. Executive authority (sometimes called an executive order) is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the agreed-upon obligations in the arrangement.
- AG21. Cabinet and ministerial directives may create an enforcement mechanism between different government departments or different levels of government of the same government structure. For example, a directive given by a minister or government department to an entity controlled by the government to satisfy the agreed-upon obligations in the arrangement may be enforceable. Each party must be able to enforce both the rights and obligations conferred on them in the arrangement to meet the definition of a binding arrangement. Each party must have the ability and authority to compel the other party or parties to satisfy the promises established within the arrangement or to seek redress should those promises not be satisfied.

- AG22. Sovereign rights are the authority to make, amend and repeal legal provisions. On its own, this authority does not establish enforceable rights and obligations for the purposes of applying this Standard. However, if the use of sovereign rights were detailed in the arrangement as a means of enforcing the satisfaction of agreed-upon obligations by an entity, this may result in a valid enforcement mechanism.
- AG23. A transfer recipient may feel compelled to deliver on the obligations in an arrangement because of the risk that it might not receive future funding from the entity. In general, the entity's ability to reduce or withhold future funding to which the transfer recipient is not presently entitled would not be considered a valid enforcement mechanism in the context of this Standard because there is no obligation on the entity to provide such funding. However, if the transfer recipient is presently entitled to funding in the future through another binding arrangement, and the terms of this other binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached, then the potential reduction in future funding could be considered a valid enforcement mechanism.
- AG24. When determining if a reduction of future funding would be an enforcement mechanism, the entity shall apply judgement based on the facts and circumstances. Key factors that may indicate the entity would reduce future funding in the event of a breach of promises made in another binding arrangement are the entity's ability to reduce future funding and its past history of doing so.
- AG25. A statement of intent or public announcement by an entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between an entity and a transfer recipient under which both parties have rights and obligations. An entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with PBE IPSAS 19.

AG25.1. In applying paragraphs AG15–AG25, an entity considers the following.

- (a) Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.
- (b) At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:
- (i) The substance, rather than the form, of the arrangement;
 - (ii) Terms that are written, oral, or implied by an entity's customary practices;
 - (iii) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
 - (iv) Consequences of not satisfying the obligations in the arrangement;
 - (v) The specific jurisdiction, sector, and operating environment; and
 - (vi) Past experience with the other parties in the arrangement.
- (c) Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. ~~Paragraphs AG15–AG25 provide further guidance on assessing enforceability through legal or equivalent means.~~

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 48.

[...]

B.2 Enforceability

What should an entity consider in assessing enforceability?

Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgement. This assessment is integral to identifying whether an entity has a binding arrangement (i.e., with both enforceable rights and enforceable obligations), only enforceable rights, or only enforceable obligations. In cases where an entity does not have a binding arrangement, it may still have an enforceable right or an enforceable obligation which shall be accounted for appropriately. (See Implementation Guidance C.1 for these scenarios.) Enforceability may arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties accountable for the satisfaction of their obligations in accordance with the terms of the arrangement.

At inception, an entity shall use its judgement and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or satisfying those obligations (i.e., how it is enforced). Relevant factors include, but are not limited to:

- (j) The substance, rather than the form, of the arrangement;
- (k) Terms that are written, oral, or implied by an entity's customary practices;
- (l) Whether it is legally binding through legal (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence) or equivalent means (e.g., by legislation, executive authority, cabinet or ministerial directives);
- (m) Consequences of not satisfying the obligations in the arrangement;
- (n) The specific jurisdiction, sector, and operating environment; and
- (o) Past experience with the other parties in the arrangement.

Some mechanisms (for example, sovereign rights or reductions of future funding) may constitute a valid mechanism of enforcement. An entity should apply judgement and consider all facts and circumstances objectively, within the context of its jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG15–AG25 provide further guidance on assessing enforceability through legal or equivalent means.

Appendix 2: Summary of Board decisions on the feedback analysis

Meeting	Outcome	Staff action
April 2026	The Board AGREED to take no further action with respect to:	
	<ul style="list-style-type: none"> the concept of a binding arrangement (defined in the EDs) being the fundamental principle underpinning the accounting for revenue and transfer expenses 	No action required
	<ul style="list-style-type: none"> providing guidance on what the rights and obligations would be in a transaction involving ticket sales for a charity event (and whether this transaction involves a binding arrangement) 	No action required
	The Board AGREED to provide adoption and implementation support ³ to:	
	<ul style="list-style-type: none"> assist stakeholder with the challenges relating to the practical application of the binding arrangement principle 	Adoption and implementation support to be provided
	<ul style="list-style-type: none"> assist both entities' and auditors' understanding of 'enforceability', particularly by clarifying the roles of rights, obligations and remedies in the arrangement, through highlighting the relevant guidance in the EDs 	
	<ul style="list-style-type: none"> highlight that disclosure of significant judgements relating to enforceability assessments is covered by ED PBE IPSAS 48 paragraph 61 (if related to transfer right assets) and paragraph 137 in PBE IPSAS 1 <i>Presentation of Financial Reports</i> 	
<ul style="list-style-type: none"> highlight that the binding arrangement definition in PBE IPSAS 47 and PBE IPSAS 48 is for the purposes of those standards only 		

³ Note: the Board did not agree to provide a **specific type** of adoption and implementation support. We (as the staff) will consider how best to provide this support.

Meeting	Outcome	Staff action
	<ul style="list-style-type: none"> highlight that enforceability may arise from various mechanisms and an entity needs to use judgement and objectively assess all relevant factors, especially in scenarios where delivery timeframes are not specified or where consequences are not being enforced 	
	<ul style="list-style-type: none"> assist with concerns about the placement of paragraph 56 in the revenue ED and potentially different accounting treatments for economically similar enforceable obligations 	
	<ul style="list-style-type: none"> assist entities with how to support their binding arrangement assessments to their auditors in situations where terms are oral or implied (through facilitation of discussions between stakeholders) 	
	<p>The Board AGREED to move Implementation Guidance (IG) paragraph B.2 (in both EDs) to the Application Guidance (AG) section of the EDs.</p>	<p>Refer to paragraphs 51 – 53 and Appendix 2 of this agenda item.</p>
	<p>The Board AGREED to amend paragraph AG12 in both EDs, to provide New Zealand-specific examples of ‘equivalent means’ enforcement mechanisms.</p>	<p>Draft the additional wording for paragraph AG12 for Board approval at a future meeting.</p>

Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **Technical analysis on matters for referral to the IPSASB Application Group**

Date: 29 May 2026

Prepared by: Leana van Heerden and Carly Berry

Through: Gali Slyuzberg; Nimash Bhikha; Michelle Lombaard

Action Required

For Information Purposes Only

Purpose

1. The purpose of this agenda item is to present the Board with:
 - (a) our technical analysis on the nine matters on which the Board agreed to progress further investigation as potential IPSASB Application Group (IAG) matters in April 2026¹.
 - (b) the draft submission letter to the IAG for matters 1 – 4.
2. These nine matters were identified from the consultations on ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* (the EDs).

Recommendations

3. We recommend that the Board:
 - (a) **AGREES** to refer matters 1 – 4 to the IAG;
 - (b) **AGREES NOT** to refer matters 5 – 9 to the IAG; and
 - (c) **PROVIDES FEEDBACK** on the draft submission letter.
4. The following agenda item accompanies this memo as supporting information:
 - (a) Agenda item 8.1e: IPSASB staff comments on potential IAG matters (Board-only).

Background

5. Certain matters raised in the feedback and during the consultation appear to relate to the interpretation of proposed requirements in the EDs that are closely based on requirements in IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*. Such matters may,

¹ In April 2026, the Board considered seven matters for potential referral to the IAG. We have not added any matters since then; rather, we have split two of them into separate matters for ease of analysis.

therefore, be best considered at the international level, rather than addressed domestically in isolation by the XRB.

6. As outlined to the Board in April 2026, the IAG supports the IPSASB by considering application issues and identifying whether additional clarification or guidance on existing standards may be required.
7. The IAG considers issues based on the following criteria:
 - (a) Whether the issue relates to a public sector-specific matter;
 - (b) Whether the issue is widespread and expected to have a material effect;
 - (c) Whether it is likely that a change to existing standards or guidance is needed; and
 - (d) Whether the issue can be resolved efficiently and is sufficiently narrow in scope.
8. For more detail on the role and purpose of the IAG, as well as our process for identifying the nine matters, please refer to agenda item 9.1b from the April meeting [here](#) (starting on page 59).

Summary of matters discussed in this agenda item

9. A summary of the matters, and our recommendations, are set out in the table below.

#	Matter	Staff recommendation
1	Boundaries of applying IPSAS 41 by analogy to non-contractual receivables	Refer to the IAG
2	Tax revenue – Subsequent measurement of estimated tax receivables	
3	Tax revenue – Variable consideration constraint	
4	Tax revenue – Time-value of money	
5	Assessing and evidencing progress towards satisfaction of the transfer recipient’s obligations in transfer expense transactions with binding arrangements	Do NOT refer to the IAG
6	Potential inconsistencies in IPSASB literature relating to services provided to communities by central and local governments	
7	Presentation of transfer expenses relating to services in the statement of financial performance	
8	Application of the binding arrangement principle to high-volume, low-value transactions	
9	Rate-regulated activities	

Board Sub-Committee

10. In April 2026, the Board agreed to establish a sub-committee to provide focused technical consideration of potential IAG matters prior to referral to the full board.
11. The role of the sub-committee was to review each matter in detail, assess the matter against the IAG’s selection criteria and provide direction on whether the matter should be progressed for potential referral to the IAG.
12. The sub-committee met on 18 May 2026 to consider these matters in detail and agreed with these recommendations.

13. The technical analysis for each matter, set out in paragraphs 17 – 100 of this memo, considers the following:
 - (a) The concern raised during the consultations.
 - (b) Detailed analysis of the requirements in IPSAS 47, IPSAS 48 and/or other relevant standards.
 - (c) Informal discussions with IPSASB staff.
 - (d) Assessment of the matter against the IAG’s selection criteria,
 - (e) Discussion with the sub-committee.
14. The sub-committee also noted that additional application questions may emerge as our analysis of feedback on the EDs continues. While those matters are not considered further in this paper, XRB staff will continue to assess whether any further issues should be referred to the IAG.
15. For the purposes of this paper, matters 1–3 have been presented separately to assist the Board in considering each issue on its own terms and to make the specific areas of uncertainty easier to analyse.
16. However, in the draft submission letter to the IAG, these matters have been combined into a single point because they arise from the same underlying requirements in IPSAS 47 (paragraphs 30–31 and 45–50) and are interrelated aspects of a broader application issue. This aggregation was also recommended by the sub-committee.

Matter 1: Boundaries of applying IPSAS 41 by analogy to non-contractual receivables – *Refer to the IAG*

Concern raised

17. Paragraph 31 of IPSAS 47 requires receivables outside the scope of IPSAS 41 *Financial Instruments* to be subsequently measured on the same basis as a financial asset in accordance with IPSAS 41, by analogy. Implementation Guidance F.1 (IG F.1) explains the rationale for applying IPSAS 41 by analogy and highlights key principles, including assessment against the amortised cost criteria and the application of impairment concepts, such as expected credit losses, in a manner that reflects the economic substance of the receivable.
18. However, the guidance does not clearly articulate the intended boundaries of that analogy. In particular, it is unclear whether ‘by analogy’ is intended to require:
 - (a) application of selected measurement and impairment principles only where relevant for these receivables; or
 - (b) broader application of the IPSAS 41 model, including the expected credit loss framework in full (including both the simplified and general ECL models), and the associated disclosure requirements.
19. In addition, the sub-committee noted that non-contractual receivables are not always similar in substance and risk to contractual receivables. This raises questions about the extent to which it is appropriate to apply the IPSAS 41 model by analogy in all

circumstances, and whether a more explicit assessment of similarity should be incorporated into the requirements or guidance.

20. We consider that additional clarity on the intended boundaries of applying IPSAS 41 by analogy, including how differences in substance and risk should be considered, would reduce application challenges and the risk of divergent interpretations in practice.

Technical analysis

21. IPSAS 47 and its Implementation Guidance refer to applying IPSAS 41 “by analogy” and highlight key principles, without explicitly indicating whether the full IPSAS 41 model (including all expected credit loss approaches and disclosures) should be applied. This creates ambiguity in practice.
22. Paragraph IG F.1 suggests that non-contractual receivables are consistent in substance and risk exposure to contractual receivables and therefore should be measured consistently to ensure that transactions with the same substance are accounted for using consistent principles. However, the sub-committee observed that this may not always be the case in practice, as non-contractual receivables can exhibit different characteristics, risk profiles, and enforceability compared to contractual receivables.
23. In the absence of clear guidance on how to assess similarity in substance and risk, entities may reach different conclusions about the extent to which IPSAS 41 should be applied by analogy. This could result in inconsistent application, particularly in relation to impairment approaches (including the use of different ECL models) and disclosure requirements.

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue relates to non-contractual receivables (e.g. taxes, rates and fines), which are specific to the public sector and addressed in IPSAS 47.
2. <i>Widespread and material</i>	Yes. These receivables are common and often material across public sector entities. Lack of clarity may result in inconsistent approaches, particularly in relation to ECL and disclosure requirements.
3. <i>Likely need for change to standards or guidance</i>	Yes. The issue appears to arise from a lack of clarity in existing guidance rather than a fundamental gap in principles. Targeted clarification (e.g. additional implementation guidance) may be sufficient to address the issue, including clarification of how to assess similarity in substance and risk.
4. <i>Narrow scope and capable of efficient resolution</i>	Yes. The issue is focused on clarifying the boundaries of applying IPSAS 41 by analogy. It is likely capable of being addressed efficiently without a broader reconsideration of the underlying principles.

XRB staff conclusion

24. We consider this matter **meets the IAG selection criteria**. Clarifying the boundaries of applying IPSAS 41 by analogy to non-contractual receivables, including the role of assessing similarity in substance and risk, would reduce application challenges and the risk of inconsistent practice (particularly for ECL and disclosures). Accordingly, we recommend progressing this matter for potential referral to the IAG.

Question for the Board:

Q1. Does the Board **AGREE** to refer matter 1 to the IAG?

Matter 2: Tax revenue – Subsequent measurement of estimated tax receivables – *Refer to the IAG*

Concern raised

25. IPSAS 47 establishes a comprehensive and tax-specific framework for recognising and measuring tax receivables, including estimated tax receivables, through paragraphs 45–50 and Implementation Guidance C.2. That framework requires the asset and revenue to be measured at the best estimate of the inflow of economic benefits, constrained to amounts for which it is highly probable that a significant reversal will not occur, with subsequent changes in entitlement accounted for as changes in accounting estimates under IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
26. Against that backdrop, paragraph 31 of IPSAS 47 requires receivables not within the scope of IPSAS 41 to be subsequently measured by applying IPSAS 41 by analogy. Implementation Guidance F.1 explains the rationale for this requirement and refers to applying amortised cost concepts and impairment principles, such as expected credit losses, in a manner that reflects the economic substance of the receivable.
27. However, the guidance does not articulate how the IPSAS 41 analogy is intended to operate alongside the tax-specific estimation and constraint model in IPSAS 47, particularly for estimated tax receivables where formal assessments have not yet occurred and significant uncertainty about entitlement may persist for extended periods.
28. Further, the sub-committee noted that there is a lack of clarity regarding what constitutes initial measurement and subsequent measurement for tax receivables. In practice, this distinction is critical to understanding how the requirements in paragraphs 30–31 interact with the tax-specific measurement model in paragraphs 45–50.
29. In addition, a distinction arises between different stages of tax receivables. Estimated tax amounts prior to formal assessment involve uncertainty relating to both entitlement and measurement, whereas tax receivables after formal assessment are more akin to financial assets with uncertainty primarily relating to credit risk. IPSAS 47 does not clearly reflect this distinction, nor how it interacts with the initial and subsequent measurement requirements in paragraphs 30–31 and 45–50.
30. In particular, it is unclear:
 - (a) whether, and at what point, uncertainty already reflected through constrained measurement and ongoing re-estimation under paragraphs 45–50 should also be reconsidered through impairment concepts in IPSAS 41 applied by analogy;
 - (b) how entities are expected to distinguish between changes arising from remeasurement of tax entitlements (for example, due to reassessment, compliance behaviour or penalty regimes) per requirements in IPSAS 47, and credit risk addressed through impairment per IPSAS 41.

31. Without clearer articulation of the interaction between the requirements, there is a risk that entities may double-count uncertainty by both constraining measurement under IPSAS 47 and applying IPSAS 41-type impairment adjustments before tax assessments become enforceable, leading to inconsistent application in practice.
32. We concluded that additional clarity may be needed on how the IPSAS 41 analogy is intended to operate alongside the tax-specific estimation and constraint model in IPSAS 47, including how to distinguish between initial and subsequent measurement and how different stages of tax receivables should be reflected.

Technical analysis

33. IPSAS 47 sets out a tax-specific measurement model based on constrained estimates and ongoing remeasurement, while paragraph 31 requires subsequent measurement by applying IPSAS 41 by analogy. However, the Standard and its Implementation Guidance do not clearly explain how these requirements are intended to interact in practice.
34. In particular, there is ambiguity as to:
- how entities should distinguish between initial measurement (including constrained estimation of entitlement) and subsequent measurement;
 - how the transition from estimated tax receivables to formally assessed receivables should be reflected; and
 - whether, and in what circumstances, impairment concepts (such as expected credit losses) should be applied in addition to, or instead of, remeasurement under the tax-specific model.
35. The absence of clear guidance on these matters may result in different interpretations in practice. This is particularly evident where uncertainty relates to both entitlement and credit risk at different stages of a tax receivable, but the Standard does not explicitly distinguish between these stages.
36. As a result, entities may adopt different approaches to applying the IPSAS 41 analogy, including whether impairment adjustments are applied before or after formal tax assessments, and how these interact with constrained measurement and re-estimation. This could reduce comparability across jurisdictions.

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue concerns tax receivables, which are public sector-specific and addressed through IPSAS 47's taxation model, including how it interacts with IPSAS 41 by analogy.
2. <i>Widespread and material</i>	Yes. Tax receivables (including estimates) are common and often material for many public sector entities; inconsistent application could affect both revenue/receivable amounts and comparability across jurisdictions.
3. <i>Likely need for change to standards or guidance</i>	Yes. Targeted clarification (for example, implementation guidance) appears likely to be needed to explain: <ul style="list-style-type: none"> • the distinction between initial and subsequent measurement; • how different stages of tax receivables should be reflected; and

	<ul style="list-style-type: none"> the intended boundary between IPSAS 47's constrained measurement/re-estimation and impairment concepts under IPSAS 41 applied by analogy.
4. <i>Narrow scope and capable of efficient resolution</i>	Yes. The question is reasonably narrow (how paragraph 31/IG F.1 is intended to operate for estimated tax receivables) and should be capable of efficient resolution through clarifying guidance.

XRB staff conclusion

37. We consider this matter **meets the IAG selection criteria**. Clarification is needed on the interaction between applying IPSAS 41 by analogy under paragraph 31 and the tax-specific measurement model in IPSAS 47, including the distinction between initial and subsequent measurement and the treatment of different stages of tax receivables. Accordingly, XRB staff recommend progressing this matter for potential referral to the IAG.

Question for the Board:

- Q2.** Does the Board **AGREE** to refer matter 2 to the IAG?

Matter 3: Tax revenue – Variable consideration constraint – *Refer to the IAG*

Concern raised

38. IPSAS 47 establishes a taxation-specific measurement model for tax revenue through paragraphs 45–46, requiring revenue to be measured at the best estimate of the inflow of resources based on all relevant and reliable information available at the reporting date. This model explicitly incorporates uncertainty relating to entitlement, assessment and collection, including through the use of statistical and estimation techniques where there is a separation between the taxable event and collection.
39. Paragraphs 49–50 introduce a further requirement to constrain the amount of tax revenue recognised where there is collection uncertainty, limiting recognition to amounts for which it is highly probable that a significant reversal will not occur when the uncertainty is resolved. The language and structure of these paragraphs mirror the “variable consideration” constraint applied in the binding arrangement model as well as in IFRS 15 *Revenue from Contracts with Customers*.
40. In contractual arrangements, the variable consideration model operates as a two-step process:
- (1) determine the transaction consideration (including expected variability); and
 - (2) constrain the resulting amount to avoid significant reversal.
41. In contrast, variability in tax revenue arises from taxation-specific factors (such as taxpayer behaviour, timing of filing, reassessment, compliance activity and legal interpretation). These same factors are already required to be reflected directly in the best-estimate measurement of tax revenue under paragraphs 45–46, and subsequent changes are accounted for as changes in estimates under IPSAS 3.

42. Against that context, IPSAS 47 does not clearly articulate what additional role the constraint in paragraphs 49–50 is intended to play beyond the uncertainty already embedded in the best-estimate measurement model. Without clearer explanation, there is a risk that paragraphs 49–50 may be interpreted as requiring a second layer of conservatism, potentially deferring tax revenue recognition beyond what is intended.
43. Additionally, the factors listed in paragraph 50(a)–(e) are broadly logical when read through a taxation lens:
- (a) factors outside the entity’s influence (*XRB staff consideration - e.g. taxpayer actions and economic conditions*);
 - (b) long periods before uncertainty is resolved (*XRB staff consideration - e.g. delayed assessments*);
 - (c) limited predictive experience (*XRB staff consideration – e.g. for certain taxes or cohorts*); and
 - (d) the transaction has a large number and broad range of possible consideration amounts (*XRB staff consideration e.g. determination of a deceased estate taxes*).
44. However, without explicit linkage to taxation-specific circumstances these factors may be interpreted as importing concepts from contractual revenue models, contributing to confusion.
45. The sub-committee may also wish to consider the extent to which the application of the constraint to taxation revenue is consistent with its application to binding arrangements under IPSAS 47 (paragraphs 119–120), which are based on similar principles derived from IFRS 15. In doing so, it may be helpful to consider relevant examples (e.g. Illustrative Example 15 in IPSAS 47 and Illustrative Example 25 in IFRS 15) and whether the characteristics of taxation revenue give rise to distinct application concerns.

Technical analysis

46. IPSAS 47 does not explicitly articulate the intended interaction between the taxation-specific estimation model in paragraphs 45–46 and the constraint in paragraphs 49–50.
47. In the context of the taxation-specific estimation model, it remains unclear how paragraphs 49–50 are intended to be applied in practice without duplicating or reinforcing uncertainty already reflected in the best estimate. Accordingly, clarifying the role of the constraint within the taxation model would support consistent application and reduce the risk of unintended conservatism or divergent interpretations.

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue concerns how the constraint in paragraphs 49–50 applies to taxation revenue under IPSAS 47, which is specific to the public sector.
2. <i>Widespread and material</i>	Yes. Tax revenue is significant for many public sector entities, and applying the constraint as a separate “second layer” could materially affect the timing and amount of revenue recognised, as well as comparability.
3. <i>Likely need for change to standards or guidance</i>	Yes. Additional guidance is likely needed to explain the purpose of paragraphs 49–50 in a taxation context and how they interact with

	the best-estimate model in paragraphs 45–46 (i.e., to avoid duplication and unintended conservatism).
4. <i>Narrow scope and capable of efficient resolution</i>	Yes. The issue is focused on clarifying the interaction between specific paragraphs within IPSAS 47 and should be capable of efficient resolution through targeted clarifications/examples.

XRB staff conclusion

48. We consider this matter **meets the IAG selection criteria**. We consider that IPSAS 47 does not clearly explain the intended interaction between paragraphs 45–46 and paragraphs 49–50 for assets arising from taxation transactions. Clarifying that the constraint in paragraphs 49–50 is intended to complement, rather than override or duplicate, the taxation-specific estimation model—and explaining its purpose in a taxation context, distinct from contractual “variable consideration” concepts—would reduce the risk of misinterpretation, unintended conservatism and inconsistent application across jurisdictions.

Question for the Board

- Q4.** Does the Board **AGREE** to refer matter 3 to the IAG?

Matter 4: Tax revenue – Time-value of money – *Refer to the IAG*

Concern raised

49. IPSAS 47 does not explicitly require the time value of money to be reflected in the initial measurement of tax revenue. In contrast, paragraphs 123–128 specifically require discounting where a transaction with a binding arrangement includes a significant financing component. While paragraph 46 refers to the timing of cash receipts as an input into estimation, this appears to inform the reliability and amount of the estimate, rather than to introduce discounting or financing concepts.
50. However, IPSAS 47 does not explicitly state whether the initial measurement of tax revenue is intended to include or exclude consideration of the time value of money. This lack of explicit articulation may create uncertainty in practice, particularly where there are long delays between the taxable event and collection. The sub-committee also noted that there is a lack of clarity regarding the distinction between initial and subsequent measurement in this context.
51. In addition, any consideration of the time value of money would need to be assessed on an “if material” basis to appropriately balance the costs and benefits of applying discounting.

Technical analysis

52. IPSAS 47 does not explicitly address the role of time value of money within the tax revenue measurement model, nor does it explain how this interacts with the broader measurement requirements for receivables.
53. In the absence of explicit guidance, it remains unclear:
- whether the measurement model for tax revenue is intended to exclude discounting in all cases;

- (b) whether time value of money should be considered only in specific circumstances (for example, where collection periods are long and material); and
 - (c) how the treatment of time value of money should be reflected between initial and subsequent measurement.
54. This lack of clarity may lead to different interpretations in practice. It may also result in inconsistent application across entities and jurisdictions, particularly where judgement is required to assess materiality.
55. Accordingly, we consider that clarifying the IPSASB’s intent regarding the role of time value of money, including when and how it should be applied (and on an “if material” basis), would support consistent application and reduce the risk of divergent interpretations in practice.

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue arises in the context of tax revenue under IPSAS 47, a public sector-specific revenue stream and measurement model.
2. <i>Widespread and material</i>	Potentially yes. Where collection lags are long (for certain taxes or enforcement processes), discounting could be material; inconsistent approaches could affect reported tax revenue and receivables.
3. <i>Likely need for change to standards or guidance</i>	Yes. Clarification is likely needed (for example, in the Basis for Conclusions or implementation guidance) on whether the IPSASB intended initial measurement of tax revenue to reflect time value of money, how this interacts with subsequent measurement, and whether such considerations should be applied on an “if material” basis.
4. <i>Narrow scope and capable of efficient resolution</i>	Yes. The issue is narrowly focused on a single measurement question (discounting/time value of money) and should be capable of efficient resolution through clarification rather than fundamental changes.

XRB staff conclusion

57. We consider this matter **meets the IAG selection criteria**. Clarifying whether the initial measurement of tax revenue under IPSAS 47 is intended to incorporate the time value of money would assist preparers and auditors in applying the requirements consistently and avoid confusion. Accordingly, we recommend progressing this matter for referral to the IAG.

Question for the Board:

Q3. Does the Board **AGREE** to refer matter 4 to the IAG?

Matter 5: Assessing and evidencing progress towards satisfaction of the transfer recipient's obligations in transfer expense transactions with binding arrangements – *Do NOT refer to the IAG*

Concern raised

58. Paragraph AG39 of IPSAS 48 states that if a transfer provider cannot reliably estimate the transfer recipient's progress towards satisfying its obligations, then the transfer right asset is expensed immediately. There is uncertainty about what the IPSASB means by "reliably estimate", the criteria to be used to evaluate whether this has been met and the level of effort expected of a transfer provider to demonstrate that it can reliably estimate the transfer recipient's progress.
59. We note that there could be significant ongoing costs related to the transfer provider implicitly being required to reliably "monitor" or "track" the transfer recipient's satisfaction of its obligations under a binding arrangement. This may require transfer providers to implement and resource a whole new system, process and controls. There may also be a risk that some entities that do have the ability to reliably estimate the recipient's progress choose not to, to minimise operational costs and recognise a transfer expense immediately.

Technical analysis

60. The crux of the concern is the uncertainty about the extent of the effort required to be able to "reliably estimate" the transfer recipient's progress.
61. IPSAS 48 does not contain any further guidance on what is meant by 'reliably estimate'. However, we note that paragraph AG38 states that a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. An essential aspect of enforceability is the ability to hold the other party (in this case, the transfer recipient) accountable for the satisfaction of its obligations – an inability to do so would mean that the arrangement is not enforceable (and therefore is not a binding arrangement).
62. Therefore, if a transfer provider has determined that it has a binding arrangement – resulting in the recognition of a transfer right asset – then it must have concluded that it is able to hold the transfer recipient accountable (and therefore, has 'control' over the asset). This implies a certain level of oversight over the transfer recipient's progress on the transfer provider's part.
63. However, there is no explicit requirement for an entity to implement and resource a new system, processes and controls to provide this oversight, as paragraph AG39 merely states that an entity *shall consider if it can reliably estimate the transfer recipient's progress* (rather than stating that an entity **shall** reliably estimate the transfer recipient's progress). Based on discussions with the sub-committee, we consider that an entity would need to consider its *current* situation and capability. This aligns with the fact that an entity's determination of whether it has an enforceable arrangement (which is required for transfer right asset recognition) is based on facts and circumstances at *inception* of the arrangement (paragraph AG15).
64. Through discussions with the sub-committee, it was noted that other PBE Standards make reference to the concept of "reliably estimate". For example, one of the conditions

for recognition of a provision is that a **reliable estimate can be made** of the amount of the obligation ([paragraph 22](#) of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*). Similarly, one of the conditions for recognition of an intangible asset is that the cost or fair value of the asset **can be measured reliably** ([paragraph 28](#) of PBE IPSAS 31 *Intangible Assets*). Both of these standards note that *information that is reliable is free from material error and bias and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent*. Adding any further guidance on this concept, merely for the purposes of IPSAS 48, could have unintended consequences for other PBE Standards. Furthermore, the existing requirements in IPSAS 19 and IPSAS 31 quoted above indicate that consideration of *whether an entity can make a reliable estimate* or measurement for the purpose of determining applicable accounting requirements is not a new concept – it already exists in other PBE Standards and seems to be a well-established concept.

65. Finally, we note that an entity that can reliably estimate a transfer recipient’s progress but chooses not to (thereby recognising a transfer expense immediately) will likely not be in compliance with the standard – since paragraph AG39 states that an entity shall consider if it **can** reliably estimate progress (and expense if it **cannot**).

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue concerns transfer expense transactions with binding arrangements under IPSAS 48, which typically occur in the public sector (e.g. grants and funding arrangements).
2. <i>Widespread and material</i>	Yes. Transfer expense transactions involving recognition of transfer right assets expensed over time could be widespread and material.
3. <i>Likely need for change to standards or guidance</i>	Maybe (but not at an IPSASB level). Based on the technical analysis in paragraphs, we consider the standard to be clear. As we continue our analysis on the consultation feedback, we will consider whether to emphasise the points made in our analysis as part of adoption and implementation support. We will bring any recommendations in this regard to the Board at a future meeting.
4. <i>Narrow scope and capable of efficient resolution</i>	N/A – see response to 3 above.

XRБ staff conclusion

66. We consider this matter **does not meet the IAG selection criteria**.
67. This matter remains unresolved at this stage, as we still need to consider whether to emphasise the points made in our technical analysis as part of adoption and implementation support. We will come back to the NZASB with recommended actions at a future meeting.

Question for the Board:

- Q5.** Does the Board **AGREE NOT** to refer matter 5 to the IAG?

Matter 6: Potential inconsistencies in IPSASB literature relating to services provided to communities by central and local governments – *Do NOT refer to the IAG*

Context for the Board

68. In ED PBE IPSAS 48, NZ paragraph AG3.1 effectively scopes out expenses incurred through binding arrangements with suppliers/contractors in delivering services to individuals and communities, e.g. street lighting. However, we are reconsidering this NZ paragraph, in light of internal discussions about consistency with similar types of arrangements that are within the scope of the transfer expenses ED. Please note that the IPSASB's requirements for "collective and individual services" (specifically, paragraph AG13 of IPSAS 19) are **not** in PBE Standards and were not included in ED PBE IPSAS 48, but we have referred to them below as this may be useful in submitting to the IAG.
69. For further information on the Board's decision not to include the IPSASB's requirements for "collective and individual services" in PBE Standards, please refer to the July 2024 NZASB paper [here](#) (starting on page 145).

Concern raised

70. IPSAS 19 *Provisions, Contingent Assets and Contingent Liabilities* includes application guidance for "collective and individual services". Paragraph AG13 of IPSAS 19 says that in delivering collective and individual service to the community, an entity acquires resources and incurs expenses through contracts or other binding arrangements (for example, electricity used in delivering street lighting) and these contracts and other binding arrangements are accounted for in accordance with other IPSAS. This paragraph existed before IPSAS 48 was issued and was not amended by IPSAS 48.
71. XRB staff note that (a) the definition of "transfer expense" in IPSAS 48 includes expenses arising from the provision of services to another entity or individual without directly receiving goods, services or other assets in return; and (b) paying a power company to provide street lighting to the community seems similar in principle to paying a publisher to provide copies of an accounting textbook to public secondary schools (Illustrative Example 7 accompanying IPSAS 48).
72. IPSAS 48 does not include authoritative or non-authoritative guidance relating to accounting for these types of services. Therefore, it is not clear whether expenses incurred through arrangements with third parties in providing services to the community are within scope of IPSAS 48—and if so, how to account for such arrangements under the standard.
73. The phrasing of paragraph AG13 also implies that the transaction with the power company (or other service provider) is a separate transaction that is separate to the "collective service". Accordingly, a question arises as to whether, in the context of the definition of a "transfer expense", the contract with the service provider is also considered to be separate from the activity giving rise to the transfer expense.

Technical analysis

74. Based on discussions with IPSASB staff to date, and the sub-committee, we have concluded that the reference to "other IPSAS" in paragraph AG13 of IPSAS 19 does

include IPSAS 48. This has implications for the NZ paragraph AG3.1, where such transactions are currently scoped out of ED PBE IPSAS 48.

75. We will explore a potential amendment to this paragraph – to bring these transactions within scope of PBE IPSAS 48 – and bring any recommendations to the Board at a future meeting. Any recommendations in this area will be supported by further outreach with affected stakeholders (such as Treasury, The Audit Office and local councils).

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue relates to government-provided services to communities and the interaction between IPSAS 19 and IPSAS 48—circumstances that are public sector-specific.
2. <i>Widespread and material</i>	Yes. Many central and local governments enter into arrangements with third parties to provide community services, some of which may be material.
3. <i>Likely need for change to standards or guidance</i>	Yes (but not at the IPSASB level). As explained in the technical analysis, we intend to explore a potential amendment to the NZ paragraph AG3.1.
4. <i>Narrow scope and capable of efficient resolution</i>	N/A – see response to 3 above.

XRB staff conclusion

76. We consider this matter **does not meet the IAG selection criteria.**
77. This matter remains unresolved – we intend to explore a potential amendment to the NZ paragraph AG3.1.
78. **Note** – we are currently engaged in further discussion with IPSASB staff to clarify aspects of their initial response to our queries. We will provide a verbal update to the Board on the outcome of these discussions and any implications for our conclusion on this matter.

Question for the Board:

Q6. Does the Board **AGREE NOT** to refer matter 6 to the IAG?

Matter 7: Presentation of transfer expenses relating to services in the statement of financial performance – *Do NOT refer to the IAG*

Concern raised

79. Paragraph 49 of IPSAS 48 states that, in the context of transfer expenses, an analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while an analysis of expenses by function results in the allocation of transfer expenses to the various programmes or purposes for which the transfers were made.
80. The application of paragraph 49 may require a significant change to how expenses relating to services are presented in the financial statements of transfer providers (particularly for central and local governments that provide many services to individuals and communities). For entities that currently present expenses by nature, implementing IPSAS 48 may require splitting expense line items into an “exchange” and “non-

exchange” component to present the transfer expenses line item required by paragraph 49.

81. Determining the split between these components would require judgement—particularly for expenses incurred through arrangements with third parties in providing a service to the community (if such services are in scope—see Matter 6).
82. IPSAS 48 does not contain authoritative or non-authoritative guidance relating to the application of paragraph 49 in these circumstances. This could potentially lead to materially inconsistent application in practice.

Technical analysis

83. Through discussions with IPSASB staff and the sub-committee, we consider that no additional effort or judgement is required to present transfer expenses, beyond what is required for the purposes of determining the recognition and measurement of these expenses. Also, we note that we have not received any specific feedback from stakeholders on the requirements in paragraph 49. This may, in part, be attributable to the current drafting of NZ paragraph AG3.1 which effectively scopes some services out of ED PBE IPSAS 48 (see Matter 6 above for more detail on this paragraph).
84. As noted in the technical analysis on Matter 6, we intend to explore a potential amendment to this paragraph – to bring these transactions within scope of PBE IPSAS 48 – and bring any recommendations to the NZASB at a future meeting. As part of this work, we intend to engage with affected stakeholders (such as NZ Treasury, The Audit Office and local councils) to obtain information about the expected effects of a potential amendment (including those relating to presentation).

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue concerns presentation of transfer expenses for service delivery in public sector financial statements under IPSAS 48.
2. <i>Widespread and material</i>	Yes. Presentation of expenses is fundamental and affects many governments; applying paragraph 49 may require significant reclassification and judgement among various expense line items in the statement of financial performance.
3. <i>Likely need for change to standards or guidance</i>	Unclear at this time. As explained in the technical analysis, we intend to explore a potential amendment to the NZ paragraph AG3.1, which will have implications for the presentation requirements.
4. <i>Narrow scope and capable of efficient resolution</i>	N/A – see response to 3 above.

XRB staff conclusion

85. We consider this matter **does not meet the IAG selection criteria.**
86. This matter remains unresolved – we intend to explore a potential amendment to the NZ paragraph AG3.1.

Question for the Board:

Q7. Does the Board **AGREE NOT** to refer matter 7 to the IAG?

Matter 8: Application of the binding arrangement principle to high-volume, low-value transactions – *Do NOT refer to the IAG*

Concern raised

87. We have received questions from NZ stakeholders about how the requirements in IPSAS 47 and IPSAS 48 should be applied in practice to high-volume, low-value revenue and transfer expense transactions (such as donations, grants or similar arrangements with unique terms), including the extent to which judgements about the existence of a binding arrangement, enforceability, rights and obligations and timing are expected to be made at an individual arrangement level.
88. For example, a university may receive a high volume of low-value donations to sponsor students, each with unique terms and conditions attached. In practice, some of these arrangements may give rise to binding arrangements, while others may not, requiring judgements to be made about enforceability, rights and obligations, and timing at an individual arrangement level.
89. We note the practical expedients in paragraphs AG11 (IPSAS 47) and AG10 (IPSAS 48). However, these practical expedients are only relevant to portfolios of binding arrangements / transfers / compliance obligations with similar characteristics and would therefore not address the concerns relating to high volumes of low-value unique transactions.
90. This matter raises cost–benefit and operability considerations that are likely to be relevant across many public sector jurisdictions and, if not clearly addressed through implementation guidance, may lead entities to adopt differing workarounds, resulting in diversity in practice.

Technical analysis

91. Upon further reflection and through discussion with IPSASB staff and the sub-committee, we do not believe that this is a matter capable of efficient resolution by the IAG. This is because the challenges identified by NZ stakeholders primarily relate to the costs involved with application rather than in how the requirements should be applied or interpreted.

Assessment against IAG criteria

1. <i>Public sector-specific matter</i>	Yes. The issue concerns applying IPSAS 47/48 (binding arrangement assessments) to common public sector transactions such as donations and grants, including operability for high-volume populations.
2. <i>Widespread and material</i>	Yes. High-volume, low-value transactions are common across public sector entities (e.g., universities, charities, grant administrators). Without practical guidance, entities may adopt inconsistent workarounds, affecting comparability (and potentially cost-benefit) even if individual amounts are small.

3. <i>Likely need for change to standards or guidance</i>	Not at an IAG level. As noted in the technical analysis, the challenges with this matter relate primarily to the cost of application rather than in how the requirements should be applied or interpreted. We will explore what guidance or support may be required at the domestic level.
4. <i>Narrow scope and capable of efficient resolution</i>	No – see response to 3 above.

XRB staff conclusion

92. We consider this matter **does not meet the IAG selection criteria**.
93. This matter remains unresolved. We will develop a proposed approach to address this matter and bring it to the Board for consideration at a future meeting.

Question for the Board:

- Q8.** Does the Board **AGREE NOT** to refer matter 8 to the IAG?

Matter 9: Rate-regulated activities – *Do NOT refer to the IAG*

Context for the Board

94. During outreach on the revenue and transfer expense proposals, we considered whether these standards give rise to concerns similar to those identified in the for-profit sector that led to the development of the soon-to-be-issued IFRS 20 *Regulated Assets and Regulated Liabilities*.
95. Under IFRS Accounting Standards, revenue from rate-regulated activities generally falls within the scope of IFRS 15 *Revenue from Contracts with Customers*, as it arises from contracts with customers for the delivery of goods or services. However, IFRS 15 was not designed to address timing differences created by defined rate regulation, where economic rights and obligations arise because a regulator permits under- or over-recoveries to be adjusted through future rates. These rights and obligations do not arise from contracts with customers but from regulatory agreements. This structural gap led the IASB to develop IFRS 20, which introduces specific requirements for recognising regulatory assets and regulatory liabilities, operating alongside (rather than replacing) IFRS 15.
96. In the IPSAS context, IPSAS 47 expands the revenue model beyond contracts with customers by introducing the concept of binding arrangements, including those arising from laws or regulations, and by explicitly accommodating third-party beneficiaries. While this broader framework is well-suited to public sector service delivery, IPSAS 47 remains a revenue recognition standard. It does not provide a basis for recognising assets or liabilities arising from timing differences created by defined rate regulation, because, while the amounts represent enforceable consideration for past service delivery, the right to recover, or the obligation to refund, is realised through future rate-setting mechanisms established by the regulator, rather than through the terms of the customer contract. Accordingly, notwithstanding the inclusion of third-party beneficiaries, a similar

structural gap exists in IPSAS Standards to that which existed in IFRS Accounting Standards.

97. Our enquiries with the NZ Technical Reference Group, Treasury, and other public sector stakeholders did not identify any New Zealand public benefit entity arrangements that clearly give rise to regulatory assets or regulatory liabilities of the type addressed by IFRS 20. On that basis, while a conceptual gap exists in the IPSAS literature, it does not appear to be of practical significance in the New Zealand context at this time.
98. In considering whether this matter should be referred to the IAG, we note that the IAG's mandate is to address application and interpretation issues arising from existing standards. The absence of requirements for regulatory assets and regulatory liabilities reflects a gap in the current IPSAS literature rather than an ambiguity or application issue within IPSAS 47. Noting that rate-regulated activities are already on the IPSASB's radar—as evidenced by their inclusion among the projects under consideration in the current IPSASB work programme consultation—raising this matter with the IAG is unlikely to serve any additional purpose. As such, this matter may not appear well suited for referral and consideration by the IAG.

XRB staff conclusion

99. Based on the above consideration, we consider this matter **does not meet the IAG selection criteria**.
100. This matter remains unresolved. Given the current absence of relevant arrangements identified in New Zealand, we do not consider this to be a priority at present and therefore has not been signalled in our comment letter on the IPSASB Work Programme Consultation. However, it remains an area that we will monitor.

Question for the Board:

- Q9.** Does the Board **AGREE NOT** to refer matter 9 to the IAG?

Draft IAG submission

101. The draft IAG submission, which covers matters 1 – 4 is included in agenda Item 8.1d. We request the Board's feedback on the tone and clarity of the submission, in reference to the scope and requirements of the IAG selection criteria and plan to seek the Board's approval during the June meeting.
102. If approved, we will look to finalise the submission and send this to the IAG in mid-June 2026. We will keep the Board informed of any responses and subsequent considerations by the IAG, when available. We will bring back further analysis on these matters, with additional considerations on steps to take in New Zealand at a future board meeting.

Questions for the Board:

- Q10.** Does the Board have any **FEEDBACK** on the draft IAG submission?
- Q11.** Does the Board **APPROVE** the draft submission for finalisation and submission to the IAG?

[DATE]

Andrew van der Burgh
 Chair – IPSASB Application Group
 277 Wellington Street West
 Toronto
 Ontario M5V 3H2
CANADA

Submitted to: <https://www.ipsasb.org/>

Submission of Technical Application Questions on IPSAS 47 Revenue

Dear members of the IPSASB Application Group

The New Zealand Accounting Standards Board (NZASB) appreciates the opportunity to engage with the IPSAS Application Group (IAG) on matters relating to the practical application of International Public Sector Accounting Standards (IPSAS). As part of our ongoing commitment to supporting high-quality financial reporting across the public sector in New Zealand, we regularly monitor implementation and expected application issues raised by New Zealand constituents and assess whether clarification at the international level would be beneficial.

We are currently considering whether New Zealand will adopt IPSAS 47 Revenue. We are writing to seek the IAG's views on several technical application questions relating to requirements in IPSAS 47 that have arisen in the New Zealand context. These questions have been identified through our consultation on the proposed standards, including feedback received from submissions, as well as broader outreach with preparers, auditors, and other stakeholders. While these application issues originate domestically, we believe they will be relevant to other jurisdictions and therefore merit consideration by the IAG.

For ease of reference, we have compiled the questions in **Appendix A**, which accompanies this letter, while **Appendix B** outlines the relevant IPSAS 47 requirements. We would welcome the IAG's feedback on these matters, including how the requirements in IPSAS 47 are intended to be interpreted and applied, and whether additional clarification or guidance would support consistent application in practice.

The NZASB values the IAG's expertise and the important role it plays in supporting consistent global application of IPSAS. We look forward to your insights and would be pleased to discuss any of the matters raised in more detail should that be helpful.

Thank you for your consideration.

Yours sincerely

Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix A: Technical application questions for the IPSAS Application Group (IAG)

Matter 1: Interaction of IPSAS 47 tax-specific measurement model and IPSAS 41 by analogy for non-contractual receivables (including the role of the constraint)

Description of the issue

1. Governments impose income taxes and other direct taxes as part of their sovereign powers and use statistical modelling to measure the resulting revenue and receivables which reflects an estimate of taxes, in contrast to tax receivables based on assessed tax debt.
 - (a) In New Zealand, tax revenue is accounted for on an accrual basis, with revenue recognised based on the occurrence of the taxable event (i.e. the earning of income), rather than when tax is assessed or cash is received.
 - (b) For some taxes, including income tax, this requires complex estimation and statistical models to be able to report revenue based on the taxable event. This estimation is necessary because it can be up to two years between a taxable event occurring and taxpayers filing a tax return (that covers the taxable event period).
 - (c) In the intervening time, estimated receivables are continuously reassessed as more estimation information becomes available, until the point when the taxpayer files their final tax return for the relevant tax period. The estimation is effectively a projection of what the final tax return (debt) will be, rather than a fixed debt awaiting collection.
 - (d) This means the “contractual” cashflows from tax receivables only crystallise and become due at the point the tax return is filed.
2. IPSAS 47 establishes a taxation-specific framework for the recognition and measurement of tax revenue and associated receivables (paragraphs 30–31 and 45–50). This framework requires measurement based on a best estimate of the inflow of resources, subject to a constraint where it is highly probable that a significant reversal will not occur. Subsequent changes in estimates are accounted for in accordance with IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
3. At the same time, paragraph 31 requires non-contractual receivables (such as taxes) not within the scope of IPSAS 41 *Financial Instruments* to be subsequently measured by applying IPSAS 41 by analogy. IPSAS 47, paragraph 31, does not require entities to assess if a non-contractual receivable is similar in substance and risk to a contractual receivable before applying IPSAS 41 by analogy.
4. Implementation Guidance F.1, which accompanies but does not form part of IPSAS 47, provides supporting rationale for the use of IPSAS 41 by analogy to all receivable assets. IG F.1 also notes when applying IPSAS 41 principles by analogy, judgements should be made around the consideration of the substance of the receivable, and all relevant and readily available data, to form the basis of the revenue “contract by analogy” for which it has a receivable. These judgements appear to only be intended to be made when applying the requirements of IPSAS 41, rather than when determining whether IPSAS 41 is appropriate to those receivables in the first instance.
5. In addition, Implementation Guidance F.1 does not articulate how IPSAS 41 impairment concepts interact with the tax-receivable measurement requirements in IPSAS 47 paragraph 45-

50, and the boundaries of applying IPSAS 41 by analogy. In particular, it is unclear whether 'apply IPSAS 41 by analogy' is intended to require:

- (a) application of selected measurement and impairment principles only where considered to be relevant for these receivables (noting IPSAS 41 is not intended to be applicable to non-financial assets); or
 - (b) broader application of the IPSAS 41 financial instrument classifications, including the expected credit loss framework in full (including both the simplified and general ECL models), and the associated disclosure requirements.
6. This gives rise to several interrelated areas of uncertainty and potential interpretation differences when applying IPSAS 47:
- (a) *Assessment of substance and risk:* IPSASB staff have indicated that non-contractual receivables are not automatically similar in substance and risk to contractual receivables and that this assessment is necessary before applying IPSAS 41 by analogy. However, this step is not reflected in the wording of IPSAS 47 (paragraph 31 or IG F.1).
 - (b) *Initial versus subsequent measurement:* IPSAS 47 does not clearly distinguish between initial and subsequent measurement in the context of taxation receivables (particularly across paragraphs 45–50), leading to uncertainty regarding how and when applying IPSAS 41 for subsequent measurement should apply.
 - (c) *Different stages of tax receivables:* There is a fundamental distinction between estimated tax amounts prior to formal assessment (where uncertainty relates to entitlement and measurement) and tax receivables after formal assessment (where uncertainty is more akin to credit risk). IPSAS 47 does not reflect this distinction and how this interacts with the initial and subsequent tax measurement requirements in paragraphs 30-31 and 45-50.
 - (d) *Potential for double counting of uncertainty:* The interaction between the taxation-specific estimation and constraint model (paragraphs 45–50) and impairment under IPSAS 41 applied by analogy is not clearly articulated. This creates a risk that entities may apply both mechanisms to the same underlying uncertainty, resulting in over-conservatism.
 - (e) *Role of the collection uncertainty constraint (paragraphs 49–50):* It is unclear whether the constraint is intended to operate as part of the best estimate model or introduce an additional layer of conservatism. Without clarification, there is a risk of applying conservatism on top of conservatism. Additionally, IPSAS 47 does not explicitly articulate how the factors in paragraph 50(a)–(e) apply to taxation. Without explicit linkage to taxation-specific circumstances these factors may be interpreted as importing concepts from general contractual revenue models, contributing to application issues.

Specific questions for the IAG

7. We seek the IAG's views on the following:
- (a) Does IPSAS 47, paragraph 31, require entities to apply IPSAS 41 by analogy in all circumstances, or can an entity use their judgement to evaluate whether a non-contractual receivable is similar in substance and risk to a contractual receivable before applying IPSAS 41 by analogy?
 - (b) How does paragraph 31, and the application of IPSAS 41 by analogy, interact with the tax-specific measurement model in paragraphs 45–50, particularly in distinguishing initial measurement, subsequent remeasurement (changes in estimates) and impairment for

credit risk of tax receivables? Which requirements (IPSAS 47 or IPSAS 41) should be done first and how should the other requirements be considered?

- (c) Does the collection uncertainty constraint in IPSAS 47, paragraphs 49–50, form part of the best estimate measurement model; or require an additional overlay to the subsequent measurement requirements in IPSAS 41? How should entities apply the constraint without introducing unintended double counting of uncertainty or excessive conservatism?
- (d) How does the requirements in IPSAS 47 distinguish between estimated tax receivables (pre-assessment); and assessed tax receivables (post-assessment) and consider the different measurement approaches across these stages?

Current or emerging practice

- 8. In New Zealand, IPSAS 47 has not yet been issued. However, during consultation on the proposed standard, stakeholders raised these interpretive questions and indicated that different approaches may be adopted in practice in the absence of further clarification.
- 9. In particular, many stakeholders interpret applying IPSAS 41 by analogy to mean different things, as some stakeholders consider this to be applying the entire IPSAS 41 standard (including recognition, measurement, presentation and disclosure requirements), while others interpret this to be the subsequent measurement (expected credit loss) requirements only.

Why the IAG should address the issue

- 10. This issue is:
 - (a) Public sector-specific, as it relates to non-contractual receivables (particularly taxation), which arise uniquely in the public sector.
 - (b) Widespread and material, as tax revenue and related receivables are significant for many jurisdictions.
 - (c) Likely to require clarification to standards or guidance, and appears to stem from a lack of clarity rather than a gap in underlying principles.
 - (d) Narrow in scope and capable of efficient resolution by the IAG, as it could likely be addressed through targeted clarification (e.g., additional implementation guidance or Basis for Conclusions).
- 11. We consider that clarifying these matters would significantly improve consistency in application of IPSAS 47, reduce the risk of unintended conservatism, and ensure that measurement of tax revenue and receivables reflects economic substance.

Matter 2: Time value of money in measuring tax revenue and receivables

Description of the issue

- 12. Governments impose income taxes and other direct taxes as part of their sovereign powers, and use statistical modelling, which includes the consideration of the history of collecting the particular tax, contribution or levy in prior periods.
- 13. In many cases, the Government will consider the timing of cash receipts from taxpayers and may assess that the taxpayer will not settle their tax obligations in the current period but look to

settle this across multiple periods under a tax repayment plan. This would incur additional penalties to reflect the time value of money as outlined in tax law.

14. IPSAS 47 does not explicitly address whether the time value of money should be considered in the initial or subsequent measurement of tax revenue and related receivables. While requirements exist for discounting where a significant financing component is identified in binding arrangements in paragraph 124, no equivalent guidance is provided for taxation transactions.
15. This creates uncertainty as to whether the time value of money is implicitly excluded within the initial recognition, and subsequent measurement, of tax receivables; or whether judgement can be used to recognise these additional penalties, where material, particularly in circumstances involving long collection periods.

Specific questions for the IAG

16. We seek the IAG's views on the following:
 - (a) Does the measurement model in IPSAS 47, paragraphs 45-50 exclude consideration of time value of money or require it to be considered where material?
 - (b) If time value of money is relevant under IPSAS 47, paragraphs 45-50, under what circumstances, and at what time, should it be applied to tax receivables (e.g., where there are significant delays in collection)?
 - (c) How should materiality be considered in determining whether to apply discounting in line with IPSAS 47, paragraph 124?

Current or emerging practice

17. In New Zealand, IPSAS 47 has not yet been issued. However, stakeholder feedback during consultation on the proposed standard indicated uncertainty on whether the time value of money should be considered in measuring tax receivables.
18. In the absence of clear guidance within IPSAS 47, there are differing views on whether the time value of money is included within the tax revenue, and associated receivable, under IPSAS 47.

Why the IAG should address the issue

19. This issue:
 - (a) Public sector-specific, as it relates to the recognition of sovereign tax revenue, which arise uniquely in the public sector.
 - (b) Widespread and material as tax revenue and related receivables are significant for many jurisdictions and time value of money may be material in certain jurisdictions or for certain tax types, particularly where taxpayers are accustomed to provisional tax systems and have longer collection periods for final settlements;
 - (c) Requires clarification of intent rather than fundamental change to IPSAS 47; and
 - (d) Is sufficiently narrow and capable of efficient resolution by the IAG, as it could likely be addressed through targeted clarification (e.g., additional implementation guidance or Basis for Conclusions).
20. We consider that clarification would promote consistent application of IPSAS 47 and ensure that material financing effects are appropriately considered, while also reflecting the practical application of materiality.

Appendix B: Relevant IPSAS 47 paragraphs

Measurement

Measurement of Assets from an Inflow of Resources

30. *An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its fair value, in accordance with the relevant IPSAS.*

31. *After initial recognition, an entity shall subsequently measure:*

(a) *A receivable asset:*

(i) *Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or*

(ii) *Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.*

(b) *All other assets as prescribed by the applicable IPSAS.*

...

Measurement of Assets Arising from Taxation Transactions

45. *Assets arising from taxation transactions are measured in accordance with paragraph 30. An entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.*

46. *Where there is a separation between the timing of the taxable event and the collection of taxes, public sector entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:*

(a) *The tax law and/or regulation allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;*

(b) *Taxpayers failing to file returns on a timely basis;*

(c) *Valuing non-monetary assets for tax assessment purposes;*

(d) *Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers;*

(e) *The potential that the financial and political costs of rigorously enforcing the tax laws and/or regulations (or laws and/or regulations relating to other compulsory contributions and levies) and collecting all the taxes, contributions and levies legally due to the government may outweigh the benefits received;*

(f) *The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and*

(g) *A variety of circumstances particular to individual taxes and jurisdictions.*

47. *Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.*

48. *In some cases, the assets arising from taxation transactions cannot be reliably measured until some time after the taxable event has occurred. This may occur if a tax base is volatile and a reliable estimation is not possible. In many cases, the assets and revenue may be recognised in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in the recognition of an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a deceased individual's large estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently, the recognition criteria may not be satisfied until payment is received or receivable.*

Measurement of Taxes with Collection Uncertainty

49. *The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.*

50. *In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:*

(a) The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties.

(b) The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.

(c) The entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.

(d) The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.

(e) The transaction has a large number and broad range of possible consideration amounts.

Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **Making materiality judgements – Phase 2**

Date: 28 May 2026

Prepared by: Alex Stainer

Through: Gali Slyuzberg, Michelle Lombaard

Action Required

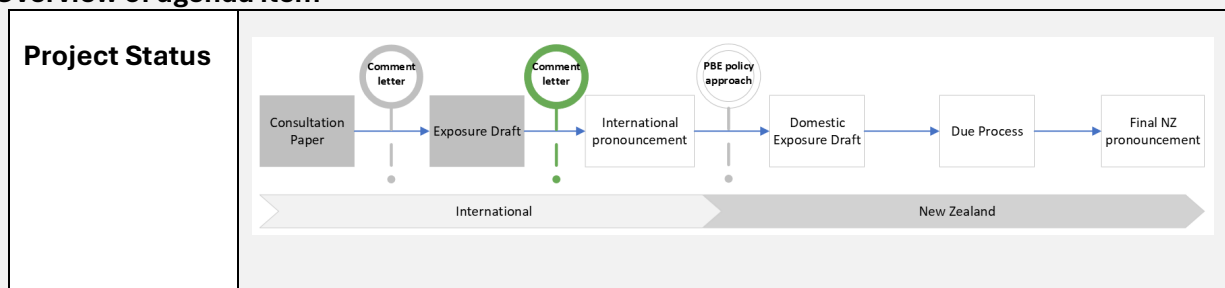
For Information Purposes Only

COVER SHEET

Project priority and complexity

Project purpose	To influence the direction of the IPSASB project to align the definition of material in the IPSAS Standards with the Conceptual Framework [Phase 1] and improve the application of materiality [Phase 2], to reduce over-disclosure of irrelevant information and under-disclosure of relevant information.
Cost/benefit considerations	Materiality is fundamental to balancing the benefits and costs of reporting. Improving the application of materiality is expected to lead to greater benefits of reporting. The costs and benefits are set out in Table 2 of this memo.
Project priority	<p>Low priority</p> <p>The IPSASB have separated the project into 3 phases</p> <ul style="list-style-type: none"> • Phase 1 – align definition of material across IPSAS Standards and Conceptual Framework • Phase 2 – issue guidance to help the application of materiality for financial reporting, based on IFRS Practice Statement 2 • Phase 3 – develop guidance on the application of materiality for sustainability reporting <p>The IPSASB have now completed Phase 1, and progressed Phase 2 to ED stage with the issue of IPSASB ED 97 <i>Making Materiality Judgments</i>. While materiality is an important and pervasive topic, the proposed guidance in ED 97 is non-authoritative and does not change requirements in standards.</p>

Overview of agenda item



Board action required**Low complexity**

PROVIDE FEEDBACK on the draft comment letter in respect of IPSASB ED 97 Making Materiality Judgments

Purpose

1. The purpose of this memo is to seek the Board’s feedback on the draft comment letter on IPSAS ED 97 *Making Materiality Judgments* (ED 97), and to outline the proposed approach to progressing the Phase 1 domestic amendments in light of the form and content of the Phase 2 guidance.
2. Subject to Board feedback, the comment letter will be submitted to the IPSASB following approval at the August NZASB meeting.

Recommendations

3. The Board is asked to:
 - (a) PROVIDE FEEDBACK on the draft comment letter in respect of ED 97 to the IPSASB.

Background

4. The IPSASB had previously heard that entities in the public sector face challenges in making materiality judgments when preparing financial statements in accordance with IPSAS, with some entities tending to use disclosure requirements in IPSAS as a ‘checklist’ – which sometimes results in entities providing too much irrelevant information and/or not enough relevant information in their financial statements. To address these challenges, in 2025 the IPSASB commenced the project *Making Materiality Judgments*.
5. In March 2025, the IPSASB approved the *Making Materiality Judgments* project brief, comprising three phases:
 - (a) Phase 1—Aligning the definition of ‘material’ across the Conceptual Framework and IPSAS Standards;
 - (b) Phase 2—Development of non-authoritative guidance aligned with IFRS Practice Statement 2: Making Materiality Judgements (‘Practice Statement 2’); and
 - (c) Phase 3—Development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS Standards.
6. In October 2025, the IPSASB finalised Part 1 of its Materiality project, by issuing the pronouncement *Definition of Material*. This pronouncement aligned the definition of ‘material’ in IPSAS 1 with the description of ‘material’ in the IPSASB Conceptual Framework, which had been updated in 2023 in line with 2018 amendments to the IASB Conceptual Framework. The pronouncement also updated both the description of materiality in the Conceptual Framework and the definition of materiality in IPSAS 1, to clarify that materiality relates to the information needs of *primary* users (Please note: These amendments are not yet incorporated into PBE IPSAS 1 in New Zealand).
7. In April 2026, as part of Phase 2 of the Materiality project, the IPSASB issued ED 97 *Making Materiality Judgments*. The ED proposes non-authoritative guidance to help public sector

entities in applying materiality principles when preparing financial statements in accordance with IPSAS Standards.

8. The proposed non-authoritative guidance in ED 97 is in the form of a standalone Practice Statement that relates to the application of IPSAS Standards. The guidance has been developed using the IASB's Practice Statement 2 *Making Materiality Judgements* as a starting point, with modifications for the public sector.
9. At its April 2026 meeting, staff recommend to the NZASB to comment on ED 97 for the following reasons:
 - (a) Materiality is a pervasive concept in terms of the application of PBE Standards (and IPSAS Standards), and it is fundamental to balancing the benefits and costs of reporting. Considering this, and the fact that PBE Standards are primarily based on IPSAS Standards, there is merit in seeking to influence the IPSASB's proposed guidance to support the application of materiality when applying IPSAS Standards in financial statements.
 - (b) The [NZASB comment letter on Phase 1 of the IPSASB Materiality project](#) noted the following: "While Phase 1 is important for consistency across IPSASB literature and includes helpful changes for preparers, we believe Phase 2 and the development of application guidance will be more critical in achieving the project's objective, i.e. to improve the application of materiality to reduce over-disclosure or irrelevant information and under-disclosure of relevant information". The importance of Phase 2 to the overall Materiality project indicates that it is worth commenting on ED 97.
10. The NZASB agreed to comment on ED 97. We have commenced drafting the comment letter, based on our preliminary views formed while following the development of ED 97, as well as preliminary feedback from New Zealand and Australian stakeholders during briefing meetings with the New Zealand member of IPSASB.

Overview of the Phase 2 ED proposals¹

11. Similar to IFRS Practice Statement 2, the proposed guidance in ED 97 includes the following.
 - (a) A discussion on the general characteristics of materiality, covering the definition of 'material' and primary users' information needs.
 - (b) A four-step materiality assessment process – being:
 - (1) Identify** information that has the potential to be material;
 - (2) Assess** whether the information identified in Step 1 is, in fact, material;
 - (3) Organise** the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users; and
 - (4) Review** the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.
 - (c) Specific topics – a discussion how to make materiality judgements in certain specific circumstances, i.e. in relation to providing prior period information, correcting errors and providing information about loan covenants.
 - (d) Examples illustrating how an entity might apply some of its guidance when applying the concept of materiality to presentation, recognition, measurement, and disclosure principles in IPSAS Standards.

¹ See Appendix for information on these proposals included on website.

12. In developing ED 97, the IPSASB used IFRS Practice Statement 2 as a starting point for developing the proposed guidance, and made modifications for the public sector context. Key public sector modifications include:
- (a) A discussion on primary users in the public sector context, i.e. resource providers, service recipients and their representatives – which is a broader group than primary users in the for-profit sector;
 - (b) References to accountability, in addition to primary users’ decision making – given that both concepts are included in the definition of ‘material’ in IPSAS; and
 - (c) Modifications of some of the examples for the public sector context.
13. The ED is accompanied by an Alternative View (from the South African IPSASB member). The Alternative View raises the following concerns:
- (a) that there are not enough public sector adaptations to the IASB guidance around the discharge of accountability, as related to the budget process and the interaction of quantitative and qualitative materiality considerations; and
 - (b) concerns about the suitability of some of the examples and the lack of public sector specific challenges reflected.
14. The IPSASB’s proposed non-authoritative guidance is in the form of a standalone Practice Statement, relating to the application of IPSAS Standards. It is worth noting the following:
- (a) The proposed guidance does not change requirements in IPSAS, or the principles and guidance in the IPSASB Conceptual Framework.
 - (b) This would be the first Practice Statement to be issued by the IPSASB. The IPSASB’s existing Recommended Practice Guides (RPGs) are also standalone non-authoritative documents. However, the IPSASB decided not to issue the proposed guidance on materiality as an RPG. This is because RPGs apply to information in general purpose financial reports (GPFR) that are *outside of general purpose financial statements* (GPFS). By contrast, the proposed guidance in ED 97 relates to the preparation of GPFS.
 - (c) The IPSASB proposes a standalone Practice Statement, rather than including the guidance as a non-authoritative appendix IPSAS 1 – to reflect the pervasiveness of materiality judgement, and that materiality is considered when applying the recognition, measurement, presentation and disclosure requirements across IPSAS Standards.

Overall assessment of the ED proposals and our consultation plan

Our assessment

15. In our view, there are several strengths to the proposed guidance:
- Leverages a well understood and widely applied materiality framework ([IFRS Practice Statement 2](#));
 - Promotes a consistent approach to assessing materiality between public and private sector where there is no reason to have differences (e.g. by using the four- step model); and
 - Promotes relevant materiality principles, such as that qualitative factors may reduce quantitative materiality thresholds.

16. However, in closely following the IFRS practice statement, the structure of the guidance is not necessarily set up for a deeper reflection of issues specific to public sector, and in our view results in:
- (a) limited exploration of public-sector-specific contexts, such as managing challenges arising from broad and diverse user groups, and in assessing how the discharge of accountability is influenced in GPFS;
 - (b) relatively conservative public sector tailoring of both examples and guidance; and
 - (c) reliance on Conceptual Framework descriptions of users, stewardship, and accountability, rather than deeper analysis of how public sector financial statements are actually used, and how materiality judgements are applied in public sector contexts where public interest considerations may be particularly prominent (for example, in relation to service delivery objectives, sensitive expenditure, or value-for-money considerations).

Consultation

17. We have had initial discussions with Australian and New Zealand stakeholders as part of our briefing meetings with the New Zealand member of IPSASB that have informed our views. In addition, we will look to extend our consultation to several key stakeholders. We are currently considering a more holistic plan to the consultation on ED 97 given the IPSASB's open consultation on Presentation of Financial Statements, and have planned to seek feedback from the Treasury, the Audit Office, and local government representatives, alongside the Presentation of Financial Statements comment letter (agenda item 9). This is expected to take the form of a small number of focused discussions to test our preliminary views and gather practical insights on how the proposals may be applied in a New Zealand public sector context.
18. In addition, we intend to publish the draft comment letter on our website to facilitate broader input where possible. We will keep the Board informed of any significant feedback received through these channels and reflect those insights, where appropriate, in the final submission.

Approach to commenting on ED 97

19. Overall, we support issuance of the Practice Statement because it provides a coherent process-based structure for considering materiality when preparing financial statements (including a four-step materiality process), and begins to address questions on the consideration of public-sector primary users and qualitative triggers in making materiality judgements. However, further refinements would be useful to improve the practicality of the guidance (i.e. to better help preparers in applying the guidance in practice), particularly for those sections that are public sector specific. Such refinements would improve the effectiveness of the guidance in terms of achieving its goal to assist public sector entities in making materiality judgements when preparing the financial statements.
20. The ED has two specific matters for comment (SMCs). SMC 1 asks whether respondents agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context. This SMC makes a reference to the Alternative View accompanying ED 97 (see above). SMC 2 asks about the helpfulness of the proposed examples, and whether additional examples should be included. We recommend responding to both SMCs, as well as providing our overall views and comments on specific parts of the ED.
21. The table below outlines the views in our comment letter.

Section	Summary
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Cover letter – overall approach	<ul style="list-style-type: none"> • Supportive of the IPSASB’s objective to develop non-authoritative guidance to assist preparers in making materiality judgements. • Acknowledges the value of adapting IFRS Practice Statement 2 to the public sector context. • Notes that the ED provides a useful conceptual foundation but would benefit from further refinement to improve practical application of materiality in a GPFS context. • Emphasises the importance of bridging the gap between conceptual materiality principles and their consistent application in practice. • Emphasises the importance of this project in context of the Presentation of Financial Statements project.
Public sector adaptation and application	<ul style="list-style-type: none"> • Greater articulation is needed on how public sector-specific aspects of the concept of materiality, particularly accountability and broad primary user groups, are applied in practice. • Additional context would assist preparers in working with diverse primary user groups (e.g. citizens and taxpayers). • Suggests to provide clearer linkage between primary users, their decisions and accountability needs, and the information provided in GPFS. • Notes the importance of distinguishing the role of GPFS within the wider GPF and accountability framework in the public sector.
Four-step materiality process (Step 1 and Step 2)	<ul style="list-style-type: none"> • Supports the four-step materiality process as an appropriate framework. Step 1 would benefit from further guidance on how preparers identify potentially material information in practice, including information beyond that which is specifically required in IPSAS. • Step 2 is conceptually well developed, but further clarity is needed on how qualitative factors influence judgements, particularly in an accountability context, while also considering the boundaries and objectives of financial statements. • Additional guidance would support consistent application of qualitative and quantitative factors together.
Primary users and accountability	<ul style="list-style-type: none"> • Identifies challenges in applying the concept of ‘primary users’ in the public sector due to their breadth and diversity. • Recommends clearer guidance on how preparers identify and respond to common information needs of primary users without prioritising individual users. • Suggests more practical articulation of how the entity discharges its accountability obligations through GPFS. • Encourages stronger linkage between GPFS information and the types of assessments that primary users make using this information.
Examples and practicality of guidance	<ul style="list-style-type: none"> • Notes that examples demonstrate specific principles rather than a more holistic demonstration of the reasoning process or how elements of the guidance are applied together in practice. • Suggests adding a targeted public sector example (e.g. quantitatively small but qualitatively material item) to reflect common public sector challenges.
Overall conclusion and positioning	<ul style="list-style-type: none"> • Generally align with the Alternative View, particularly in relation to strengthening public sector adaptations. • Highlights that further operational guidance would support the IPSASB’s objective of improving consistency in materiality judgements and address the issue whereby entities provide too much irrelevant information or not enough relevant information in GPFS.

- Notes broader conceptual tension between GPFS-focused guidance and the wider GPFR framework, suggesting this be addressed in future work on reporting architecture.

Questions for the Board

The Board is asked to:

1. **PROVIDE FEEDBACK** on the draft comment letter on IPSASB ED 97 *Making Materiality Judgments*; and

Implications for Phase 1 timing and approach

22. At its December 2025 meeting, the NZASB agreed to:
 - (a) Develop amendments to PBE Standards using the IPSASB's *Definition of Material* (i.e. the 'Phase 1' Materiality amendments) as a starting point; but
 - (b) Defer the development of the 'Phase 1' PBE ED until we have further clarity on the IPSASB's 'Phase 2' guidance and the form of that guidance.
23. With the issuance of ED 97, we now know the proposed content and form of the IPSASB Phase 2 non-authoritative guidance. As discussed with the Board at the April 2026 meeting:
 - (a) If the Phase 2 guidance was developed as non-authoritative guidance accompanying IPSAS 1, this would have been a strong reason to wait for the IPSASB to finalise the Phase 2 guidance, so that PBE IPSAS 1 can be updated for both Phase 1 and Phase 2 at the same time. However, the IPSASB's proposed Phase 2 guidance is in the form of a standalone Practice Statement that does not accompany a particular IPSAS Standard. Therefore, from that perspective, it is not necessary to wait for the IPSASB to finalise Phase 2 before developing a PBE ED based on the Phase 1 amendments.
 - (b) However, there may still be merit in waiting for the IPSASB to finalise Phase 2, and considering whether and how we introduce the Phase 2 guidance in New Zealand (i.e. via a new standalone document or by updating EG A7 *Materiality for Public Benefit Entities*) – and then consulting on the PBE ED based on Phase 1 in conjunction with non-authoritative IPSASB-based New Zealand guidance based on Phase 2.
24. As we are not aware of significant urgency to introduce the Phase 1 amendments into PBE Standards, and we consider that there is benefit in releasing a PBE ED in conjunction with guidance for our stakeholders to consider, we propose only bringing a project plan for the 'Phase 1' PBE ED to a future meeting once 'Phase 2' is complete.

Next steps

25. Subject to Board feedback:
 - (a) staff will update the draft comment letter;
 - (b) carry out consultation; and
 - (c) seek approval of the letter at the August meeting.

Attachments

- Draft comment letter in response to IPSASB ED 97 *Making Materiality Judgments*

Appendix

Making Materiality Judgements Phase 2 » XRB

Phase 2 proposals at a glance

The IPSASB Exposure Draft proposes non-authoritative guidance to support materiality judgements when preparing financial statements in accordance with IPSAS.

The IPSASB's proposed guidance is based on the IASB's Practice Statement 2 Making Materiality Judgements, with modifications for the public sector context and consistency with IPSASB literature.

The proposed guidance focuses on:

- Applying materiality in the public sector context - noting that the definition of 'material' in IPSAS 1 refers to the information needs of primary users for both accountability and decisions making purposes, and that primary users in the public sector comprise resource providers, service recipients and their representatives
- identifying material information, both qualitatively and quantitatively
- avoiding over-disclosure and the obscuring of material information
- supporting consistent but entity-specific judgements, recognising the diversity of public sector entities and users

Note: The proposed guidance in the Exposure Draft is based on the updated definition of 'material' in IPSAS 1, as updated by the IPSASB in 2024:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make based on the basis of the entity's general purpose financial statements prepared for that reporting period".

(The reference to obscuring information and the emphasis on primary users is not yet included in PBE IPSAS 1).

XX 2026

Mr Ross Smith
 Program and Technical Director
 International Public Sector Accounting Standards Board
 International Federation of Accountants
 277 Wellington Street West
 Toronto
 Ontario M5V 3H2

CANADA

Submitted to: www.ifac.org

Dear Ross,

IPSASB Exposure Draft – *Making Materiality Judgments*

Thank you for the opportunity to comment on Exposure Draft 97 *Making Materiality Judgments* (the ED). We support the IPSASB's objective of developing non-authoritative guidance tailored for the public sector to support preparers in making materiality judgements when preparing general purpose financial statements (GPFS).

We acknowledge the considerable work undertaken to adapt International Financial Reporting Standards (IFRS) Practice Statement 2 *Making Materiality Judgements* to the public sector. We also recognise the importance of high-quality public sector materiality guidance for preparers, auditors, and oversight bodies. The project's aim to address the challenge whereby entities provide too much irrelevant information or not enough relevant information is critical for the ongoing improvement of public sector reporting.

New Zealand's public sector preparers of financial statements have a long history of applying materiality judgements in a complex reporting environment. Our experience indicates that challenges remain in translating conceptual principles into practical and consistent judgements, particularly given the broad and diverse user groups of public sector entities.

We are therefore supportive of the proposed guidance and its objectives. The ED provides a useful overview of materiality in the public sector and highlights important conceptual principles. However, the public sector adaptations in the proposed guidance often remain high-level, with limited articulation of how those concepts are applied in a GPFS context. Further refinement of these areas would assist preparers in moving from understanding the concept of materiality to applying and refining their judgement in practice.

Given the purpose of the adaptation process, there is a strong case for enhancing the practical clarity of the guidance, particularly to support the project's aim of helping public sector entities avoid situations whereby their financial statements include too much irrelevant information or do not include enough relevant information, and improving consistency in materiality judgements. Further practical clarity, embedded in a public sector context, will also be important in supporting the IPSASB's Presentation of Financial Statements project, as the effective application of materiality will be critical to judgements about the aggregation and disaggregation of information within the primary

statements and the notes. In the for-profit sector, we are observing that the enhanced requirements on the grouping of information in IFRS 18 *Presentation and Disclosure in Financial Statements* are providing an opportunity for entities to reconsider what information is material to primary users and to ‘refresh’ their approach to presentation and disclosure accordingly. The IPSASB’s Presentation of Financial Statements could provide the same opportunity for public sector entities. Strengthening the applicability of the guidance on making materiality judgements, particularly in relation to public sector specific qualitative factors, will therefore be important to support consistent implementation of the potential new standard resulting from the Presentation of Financial Statements project.

In light of the above, the final guidance would be strengthened by becoming more application-focused, in particular by:

- Providing further practical context to help preparers navigate the broad definition of material and the breadth of primary user groups, including:
 - clearer acknowledgement that IPSAS requirements establish a ‘baseline’ level of information for broad primary user groups (such as citizens and taxpayers), allowing preparers to focus on identifying additional information that may be required, or where specific items of information in IPSAS may not be material;
 - clearer articulation of how the entity’s discharge of accountability is reflected within GPFS, and how primary users assess the entity’s discharge of accountability based on GPFS, including the types of information or changes that may influence those assessments; and
 - greater emphasis on the mapping of primary users’ accountability needs and decision making needs to the information provided in GPFS, including clearer explanation of how financial statements support (and are limited in supporting) these needs.
- Placing greater emphasis on how materiality judgements are applied in practice, including:
 - in Step 1 of the four-step materiality process, more explicit consideration of primary users and their information needs, and clearer guidance on identifying potentially material information beyond specific IPSAS requirements;
 - in Step 2 of the four-step materiality process, more emphasis is required in explaining how the qualitative and quantitative materiality factors are applied in practice, particularly in assessing when accountability and decision-making are influenced by these factors, and in context of the boundaries and objectives of GPFS;
- Providing an additional holistic public sector example that demonstrates integrated reasoning in a public sector context, showing how multiple qualitative factors specific to the public sector are considered together in practice, rather than as discrete aspects of materiality.

We consider that making further adaptations based on the points above is appropriate given the IPSASB’s adaptation of IFRS guidance as a starting point, and the significant differences in context and experience between public sector and for-profit reporting – particularly the difference between primary users in the public sector as compared to the private for-profit sector.

In respect of the Alternative View, our recommendations generally align. We support a measured approach to strengthening public sector adaptation, including incorporating primary users’ accountability needs throughout the guidance, clearer articulation of the interaction between

qualitative and quantitative factors, and targeted examples that address public sector-specific materiality challenges.

Our responses to SMC 1 and 2 are outlined in Appendix A.

Finally, we acknowledge the broader conceptual tension between the definition of materiality in the Conceptual Framework, which refers to decisions made by primary users on the basis of GPFR, and the definition of materiality in IPSAS 1 as reflected in the proposed Practice Statement, which refers to the decisions made by primary users on the basis of GPFS. We acknowledge that this Practice Statement appropriately focuses on GPFS, and the reference to the definition of materiality per IPSAS 1 (rather than per the Conceptual Framework) avoids confusion in relation to the two different definitions of materiality. However, we note the following:

- In practice, assessments of accountability and decision-making in the public sector are often informed by information in GPFR (e.g. service performance information) and a wider set of other accountability documents, rather than GPFS alone.
- In addition, as recommended in our comment letter on IPSASB ED 93 *Definition of Material*: We consider it is important to clearly articulate the difference between the definition of material in the Conceptual Framework and in IPSAS 1, the reason for the difference, and the implications of this difference.

We understand that this broader matter is outside the scope of this project, but consider that it would benefit from further consideration as part of the IPSASB's future work on the reporting architecture, particularly in clarifying the role of GPFS within the wider GPFR framework and the implications for applying materiality in practice.

If you have any queries or require clarification of any matters in this letter, please contact accounting@xrb.govt.nz.

Yours sincerely,

Dr Carolyn Cordery

Chair, New Zealand Accounting Standards Board

Appendix A

Specific Matter for Comment 1

The IPSASB decided to issue developing non-mandatory guidance in making materiality judgments when preparing financial statements aligned with Practice Statement 2 (see paragraphs BC10–BC22).

Do you agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

The ED includes an Alternative View that the non-mandatory guidance in [draft] IPSAS Practice Statement, Making Materiality Judgments, could benefit from further public-sector adaptation.

1. Overall, we agree with the IPSASB’s decision to adapt IFRS Practice Statement 2 for the public sector and to issue the guidance as a Practice Statement. We consider the four-step materiality process (identify, assess, organise, review) to be an appropriate structure for supporting consistent judgement, subject to our recommended enhancements noted below under the heading ‘four-step model’.
2. However, we recommend enhancing the proposed guidance to improve its practical applicability in the public sector context – so that the guidance can more effectively achieve its objective of helping public sector preparers in applying materiality judgements in practice in the context of its users.
3. We acknowledge that materiality is inherently entity-specific and that it is not appropriate for the guidance to prescribe definitive outcomes of materiality judgements. Our comments are more directed at providing additional discussion to improve how the guidance supports preparers in applying materiality judgement in practice.
4. Overall, while the ED appropriately reflects Conceptual Framework principles relating to the public sector context, the guidance would benefit from further articulation of how those principles are applied in making judgements for GPFS. In particular:
 - public sector specific sections of the guidance remain largely conceptual and would benefit from further application focus;
 - there is limited practical guidance on how to approach assessing the information needs of very broad and diverse public sector primary user groups, and how to appropriately focus information; and
 - The discharge of accountability, and decision making assessments, are not clearly articulated in practical terms. Nor is it clear how these assessments (which often require broader information than what is contained in GPFS) are influenced by GPFS. This lack of clarity makes it more difficult for preparers to assess when information in GPFS could reasonably be expected to influence those assessments.
5. Below we outline these observations in the context of the guidance.

Primary users (Paragraphs 13–15)

6. In the public sector, the breadth of primary users creates a fundamental challenge. Primary user groups such as citizens and taxpayers may effectively include the entire population of a jurisdiction, with differing levels of engagement, sensitivity and accountability expectations within that population. Primary users are described conceptually, but there is no

acknowledgement of this key challenge, and what it might mean practically when making materiality judgements.

7. The section on primary users in the guidance would benefit from further application-focused context to support preparers in identifying their primary users, understanding their common information needs, and linking those needs to information presented in GPFS.
8. In particular, this could be supported by:
 - illustrating in more detail the different types of user groups in practice, including consideration of the breadth of users (e.g. citizens and taxpayers), and the different types of decisions these primary users make;
 - further consideration of the extent to which potential users are included and how an entity considers their needs in particular – noting that the ED refers to considering the information needs of ‘potential service recipients and resource providers’ in addition to existing ones;
 - providing insight into the features of those different types of primary users (e.g. general interest, sensitivity to particular information, level of scrutiny and expected engagement with the financial statements, diversity) and how these influence the types of decisions made based on GPFS; and
 - clarifying how broad user groups (such as citizens and taxpayers) should be considered in a GPFS context. For example, by acknowledging that IPSAS requirements provide a baseline level of information that addresses common accountability and decision-making needs that provide for these broader and diverse groups.

Accountability and decision-making (Paragraphs 16–22)

9. While accountability is described conceptually in the proposed guidance (e.g. management of resources entrusted to the entity, compliance with laws, regulations and authorities governing service delivery, effectiveness and efficiency), the guidance does not clearly articulate how the discharge of accountability is assessed in practice through information presented in GPFS. Preparers may find it difficult to determine when information is reasonably expected to influence the discharge of accountability, particularly where user groups are broad and diverse and many assessments are informed by information beyond GPFS.
10. Similarly, the guidance does not clearly articulate what decisions primary users make on the basis of GPFS, and what type of information in GPFS may be needed for making these decisions.
11. To help public sector entities in considering primary users’ information needs for accountability and decision when making judgements in practice, the guidance could be strengthened as follows:

To help preparers understand accountability in the context of materiality judgements:

- more explicitly linking the discharge of accountability to information presented in GPFS, including more practical discussion, such as:
 - how users assess stewardship through changes in financial performance, financial position and cash flows; or
 - how users might apply an accountability lens to the type of spending incurred during the year;

- providing further insight into the types of information or changes that may influence assessments of the discharge of accountability, such as deviations from expectations (e.g. budgets or trends); and investigating underlying transactions, events or conditions driving those changes;

To help preparers understand and apply both the accountability and decision-making aspects of materiality in practice:

- mapping the assessments (e.g. service delivery, sustainability, capacity, performance, liquidity, solvency) that different types of service recipients and resource providers make, as mentioned in paragraphs 19–21 of the guidance, to the information in the financial statements that would likely serve as inputs into these assessment, and also to the relevant accountability and decision-making needs of these types of primary users; and
 - acknowledging that GPFS provide an important, but partial, input to accountability and decision-making, and that preparers may need to consider the wider reporting and accountability context when applying materiality judgements within GPFS, and when considering the types of decisions primary users make on the basis of GPFS.
12. The following examples illustrate the recommendations above on mapping the assessments that primary users make to the relevant information in the financial statements and their accountability and decision-making needs:
- Paragraph 21 says that lenders require inputs to assess the entity’s liquidity, to determine whether the entity will repay the loan on time. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment, e.g. current assets and liabilities in the statement of financial position, maturity analyses in the notes, etc. – and to mention that this assessment would inform the lender’s decision on whether to lend more money to the entity, or call back the loan, etc.
 - Paragraph 20 says that service recipients require inputs to assess whether the entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interest. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment, e.g. information about the entity’s revenue and expenses in the current period compared to prior period and with the budgeted information for the current year – It would also be useful to link this assessment to service recipients’ accountability needs, in relation to stewardship of resources and service delivery.
13. Explanations such as these would help in demonstrating more clearly the link between the assessments that different groups of primary users make as per paragraphs 19-21 and the financial statements themselves, which could help in applying materiality in practice when preparing GPFS. These explanations would also more strongly link the abovementioned assessments, with the core materiality concepts of, accountability to, and decision-making of, primary users – helping bring these concepts ‘to life’ in practical terms.

Common information needs (Paragraphs 23–25)

14. This section could assist in practically addressing the fundamental challenge of how preparers should address the breadth and diversity of primary users in practice.
15. While the ED appropriately emphasises that common information needs of primary users should be considered without prioritising individual users, preparers must still make decisions about information that may be of more interest to a particular primary user group. However,

there is limited guidance on how this may be achieved in a public sector context when considering these broad user groups.

16. In particular, this could be supported by:
- reinforcing the role of IPSAS requirements as a baseline, noting that existing requirements generally provide a foundation for meeting the common information needs of broad user groups, although in some cases some cases entities may need to provide more information in addition to specific items required in IPSAS, and in other cases certain items specified in IPSAS may not need to be separately presented or disclosed if they are not considered material for a specific entity's primary users;
 - clarifying how differences in the level of interest, engagement or sensitivity across user groups of common information needs may be considered in applying judgement, and acknowledging that this doesn't necessarily constitute a prioritisation of users but is a way of focusing on information that is impactful.
17. Example G could also be refined. It can be read in a manner that implies a preparer might prioritise providing certain information to a user group based on their importance to the entity (specifically in terms of funding in this example). The rationale would be more consistent if it solely focused on the nature of the information request itself, and that it is not a common information need across the donor/resource provider user group, rather than outlining the relative significance of that particular user to the entity.

Four-step Model

18. We support the introduction of a structured materiality process via the four-step model, and consider it an appropriate framework for supporting consistent judgement. Consistent with the observations above, both Step 1 and Step 2 would benefit from additional application-focused guidance. In particular:
- Step 1 could more clearly illustrate how preparers identify information that has the potential to be material in practice; and
 - Step 2 could provide further clarity on how qualitative factors are assessed, particularly in respect of influencing the discharge of accountability.

Step 1 – Identify information that has the potential to be material

19. While paragraphs 37–40 describe the sources of information to be considered, the guidance remains high level and would benefit from clearer explanation of:
- how preparers may identify additional information beyond that which is specifically required in IPSAS that is necessary for enabling primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (per paragraph 40); and
 - what indicators may help focus attention on information that has the potential to be material.
20. This highlights the importance of a clear linkage (or mapping) between:
- primary users and their decisions; and
 - the specific information provided in GPFS that may influence those decisions.
21. This could be supported by:

- reinforcing a process of linking primary users, their decisions, and the information required from GPFS as a starting point;
- providing illustrative indicators to help identify potentially material information, such as:
 - significant changes in financial performance, financial position or cash flows;
 - variances against budgets or prior periods;
 - underlying drivers of those changes; and
 - areas of heightened public interest or sensitivity; and
- clarifying that identification involves not only considering what is presented, but also why outcomes differ from expectations and whether further investigation of underlying reasons as represented in GPFS or informed by GPFR or the wider accountability landscape may be needed.

Step 2 – Assess whether information is material

22. Step 2 introduces a well-developed set of materiality factors and provides a helpful foundation for applying judgement in practice. In our view, this section is generally well articulated, but would benefit from further clarity on how qualitative factors are assessed in practice, particularly where multiple qualitative and quantitative factors interact, and how these assessments are linked to primary users' accountability and decision making needs.
23. In particular, the guidance could be further strengthened by:
- providing additional clarity on how qualitative and quantitative factors may influence the discharge of accountability in a GPFS context. This could include more explicit explanation of how the nature, extent, and context of a factor and its impact on information within GPFS might affect the discharge of accountability and a primary users' assessment of that fact. This might also include reference to how changes in performance, position, and departures from expectations can influence the entity's discharge of accountability. Such explanation would also assist preparers in identifying measures of broad interest across user groups when undertaking quantitative assessments.
 - offering further context on how preparers may consider the relative significance of qualitative factors where multiple competing or interacting factors are present. In the public sector, it can be expected that materiality judgements will be subject to multiple competing and interacting factors. Qualitative factors often coexist alongside quantitative considerations and broader contextual information. It would be useful if the guidance acknowledged how they can be assessed together.
 - acknowledging that when determining the impact of qualitative factors, and the resulting reporting outcome, preparers must also consider the objectives and boundaries of GPFS. For instance, the guidance could more clearly explain how preparers assess whether a qualitative factor (such as heightened scrutiny or public interest) justifies changes to presentation, disaggregation, or disclosure within GPFS, having regard to the role of GPFS in supporting accountability and decision-making, as distinct from the broader reporting environment. This would assist preparers in determining when the presence of a qualitative factor should influence GPFS outcomes, and why.

- clarifying how presence of qualitative factors may translate into financial statement reporting outcomes (e.g. disclosure or disaggregation); and
- adding a further illustrative example to demonstrate application in scenarios where there are several competing and interacting factors (see response to SMC 2).

Specific Matter for Comment 2
<p>Do you find the examples on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards helpful?</p> <p>Do you think any additional practical examples should be included? If so, what scenarios should the examples address?</p> <p>Please be as specific as possible and explain why those examples would be helpful to entities.</p>

1. Overall, the examples are generally structured to illustrate specific principles or discrete aspects of materiality, and are useful in that respect. However, they do not demonstrate how preparers more holistically work through a reasoning process to make materiality judgements. This is particularly important in the public sector context where competing or interacting qualitative and quantitative factors are common, and where high scrutiny and broad user groups are the norm.
2. This is illustrated in some examples (Examples D, K, and Q) that are intended to reflect specific principles, but the link between the factors identified and the materiality conclusion reached is not always fully clear, and therefore does not support more holistically how materiality judgements are made:
 - In Example D, while it is demonstrated that heightened parliamentary and public scrutiny may result in presenting an expense separately in the statement of financial performance, it is not fully clear why, in this case, the expenditure is sufficiently material to warrant that outcome. In particular, there is limited explanation of how this qualitative factor is expected to influence primary users' accountability assessments or decision-making in practice. The example also does not sufficiently consider how such a factor should be assessed alongside other relevant considerations, including the objectives and boundaries of GPFS and the broader information environment in which public sector entities operate. In the public sector, many areas of expenditure are subject to some level of public interest or scrutiny. Public scrutiny alone is not sufficient to support a materiality conclusion without further explanation of how it influences primary users' assessments in the context of GPFS, taking into account the objectives and boundaries of GPFS. Without further explanation, there is a risk that the example could be applied more broadly, implying that public scrutiny alone justifies disaggregation or additional disclosure in GPFS. Further articulation of how these factors are weighed together, and why this results in a particular reporting outcome within GPFS, would strengthen the example and better support preparers in applying the guidance in practice.
 - In Example K, it is not fully clear why the related party nature of what appears to be a routine maintenance contract would be expected to influence primary users' assessments, or how this factor is sufficient to change what would otherwise appear to be a quantitatively immaterial transaction into a material one.
 - In Example Q, it is not fully clear how the cumulative quantitative effects of the error are assessed relative to the reduction in budgeted expenditure as a qualitative factor, or how these considerations together are weighed in reaching the materiality conclusion.
3. In our view, to address these limitations, the guidance would be strengthened through the inclusion of an additional holistic public sector example that demonstrates how materiality judgements are made where several competing or interacting factors are present. In particular, an example that reflects the application of several qualitative materiality factors (outlined in Step 2 of the four-step materiality process in the guidance) to a quantitatively minor item would be helpful. This type of example could demonstrate how preparers:

- identify relevant information and assess it in the context of primary users and their information needs;
 - evaluate quantitative and qualitative factors especially where they might compete; and
 - bring together these considerations to reach a materiality conclusion.
4. Presenting such an example in a way that clearly illustrates how multiple public sector factors are considered together would further support preparers in applying the guidance in practice.

Exposure Draft 97
April 2026
Comments due: August 28, 2026

IPSAS[®]

Proposed IPSAS[®] Practice Statement

Making Materiality Judgments

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 and sustainability reporting 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 and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB SRS™ Standards, IPSAS® Practice Statements, and Recommended Practice Guidelines™ (RPG™), for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. IPSAS Practice Statements are non-mandatory guidance. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, IPSAS Practice Statements, and RPG Guidelines do not establish requirements. IPSASB SRS Standards, IPSAS Practice Statements, and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft (ED) 97, IPSAS Practice Statement, *Making Materiality Judgments*, 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 August 28, 2026.**

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.

IPSASB’s Making Materiality Judgments Project

This project aims to address the difficulties in making materiality judgments when preparing general purposes financial reports. These difficulties can contribute to a disclosure problem, in which entities provide too much irrelevant information and not enough relevant information in their financial statements.

This project is being undertaken in three distinct phases:

- **Phase 1**—Enhanced the consistency of the definition of ‘material’ between the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) and IPSAS Standards and clarified that decisions about materiality are intended to reflect the information needs of the primary users of general purpose financial statements. The IPSASB issued a final pronouncement on October 27th, 2025, the [Definition of Material \(Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework\)](#).

- **Phase 2**—Develop non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards.

The IPSASB expects to adapt IFRS® Practice Statement 2 *Making Materiality Judgements* (Practice Statement 2), to the public sector context. One of the public sector factors to be addressed in Phase 2 is the broader scope of the term ‘primary users’ in the IPSAS Standards compared to IFRS® Accounting Standards.

- **Phase 3**—Develop educational material on making materiality judgments when preparing sustainability reports in accordance with IPSASB SRS Standards, drawing on ISSB educational material.

This ED proposes the development of non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards aligned with Practice Statement 2, in line with the scope of Phase 2 of the project

Objective of the ED

The objective of this ED is to develop non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards, aligned with Practice Statement 2, adapted to the public sector context.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. 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. Comments must be submitted in English.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB decided to issue developing non-mandatory guidance in making materiality judgments when preparing financial statements aligned with Practice Statement 2 (see paragraphs BC10–BC22). Do you agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

The ED includes an [Alternative View](#) that the non-mandatory guidance in [draft] IPSAS Practice Statement, Making Materiality Judgments, could benefit from further public-sector adaptation.

Specific Matter for Comment 2:

Do you find the examples on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards helpful? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those examples would be helpful to entities.

EXPOSURE DRAFT 97, IPSAS PRACTICE STATEMENT, *MAKING MATERIALITY JUDGMENTS*

CONTENTS

	Paragraph
Introduction	IN1-IN7
<i>[Draft] IPSAS Practice Statement, Making Materiality Judgments</i>	
Objective	1-2
Scope	3-4
General Characteristics of Materiality	5-28
Definition of Material	5-7
Materiality Judgments are Pervasive	8-10
Judgment	11-12
Primary Users and their Information Needs	13-25
Impact of Publicly Available Information	26-28
Interaction with Local Laws and Regulations	29-30
Making Materiality Judgments	31-67
Overview of the Materiality Process	31-34
A Four-Step Materiality Process	35-67
Specific Topics	68-85
Prior-Period Information	68-73
Errors	74-82
Information about Covenants	83-85
Application date	86
Basis for Conclusions	
Appendix	
Alternative View	

INTRODUCTION

- IN1. The objective of general purpose financial statements is to provide financial information about the entity that is useful to primary users¹ of financial statements for accountability purposes and for making decisions. The entity identifies the information necessary to meet that objective by making appropriate materiality judgments.
- IN2. The aim of this [draft] IPSAS Practice Statement, *Making Materiality Judgments* is to provide reporting entities with guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Accounting Standards.
- IN3. The need for materiality judgments is pervasive in the preparation of financial statements. An entity makes materiality judgments when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in IPSAS Standards only need to be applied if their effect is material to the complete set of financial statements.
- IN4. This [draft] IPSAS Practice Statement:
- (a) Provides an overview of the general characteristics of materiality.
 - (b) Presents a four-step process an entity may follow in making materiality judgments when preparing its financial statements (materiality process). The description of the materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgments.
 - (c) Provides guidance on how to make materiality judgments in specific circumstances, namely, how to make materiality judgments about prior-period information, errors, and covenants.
- IN5. Whether information is material is a matter of judgment and depends on the facts involved and the circumstances of a specific entity. This [draft] IPSAS Practice Statement illustrates the types of factors that the entity should consider when judging whether information is material.
- IN6. An [draft] IPSAS Practice Statement is non-mandatory guidance developed by the International Public Sector Accounting Standards Board. It is not a Standard. Therefore, its application is not required to state compliance with IPSAS Standards.
- IN7. This [draft] IPSAS Practice Statement includes examples illustrating how an entity might apply some of the guidance in the [draft] IPSAS Practice Statement based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the guidance could be applied.

¹ Throughout the [draft] IPSAS Practice Statement, the term 'primary users' refers to service recipients and their representatives, and resource providers and their representatives.

IPSAS PRACTICE STATEMENT, *MAKING MATERIALITY JUDGMENTS*

Objective

1. This [draft] IPSAS Practice Statement, *Making Materiality Judgments* provides reporting entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Accounting Standards.
2. The guidance may also help other parties involved in financial reporting to understand how an entity makes materiality judgments when preparing such financial statements.

Scope

3. The [draft] IPSAS Practice Statement is applicable when preparing financial statements in accordance with IPSAS Standards. It is not intended for entities applying the Cash Basis IPSAS Accounting Standard.
4. The [draft] IPSAS Practice Statement provides non-mandatory guidance; therefore, its application is not required to state compliance with IPSAS Standards.

General Characteristics of Materiality

Definition of Material

5. IPSAS 1, *Presentation of Financial Statements* provides the following definition of material information in general purpose financial statements²:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.³

Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.⁴

6. When making materiality judgments, an entity needs to take into account how information could reasonably be expected to influence the discharge of accountability by the entity or the decisions that the primary users of its financial statements make on the basis of those statements (see paragraphs 13–25).⁵
7. The objective of financial statements is to provide financial information about an entity that is useful to primary users for accountability purposes and for decision-making purposes. The entity identifies the information necessary to meet that objective by making appropriate materiality judgments.

Materiality Judgments are Pervasive

8. The need for materiality judgments is pervasive in the preparation of financial statements. An entity makes materiality judgments when making decisions about recognition, measurement, presentation and disclosure. Requirements in IPSAS Standards only need to be applied if their effect is material to the complete set of financial statements,⁶ which includes the primary financial statements and the notes.⁷ However, it is

² This definition is consistent with the description of materiality in the Conceptual Framework.

³ See paragraph 7 of IPSAS 1, *Presentation of Financial Statements*.

⁴ Paragraph 12A of IPSAS 1.

⁵ See paragraph 13 of IPSAS 1.

⁶ In this [draft] IPSAS Practice Statement, the phrases 'complete set of financial statements' and 'financial statements as a whole' are used interchangeably.

⁷ For the purposes of this [draft] IPSAS Practice Statement, a complete set of financial statements comprises: the statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement, when the entity makes publicly available its approved budget, a comparison of budget and actual amounts, notes, and comparative information. See paragraph 21 of IPSAS 1.

inappropriate for the entity to make, or leave uncorrected, immaterial departures from IPSAS Standards to achieve a particular presentation of its financial position, financial performance or cash flows.⁸

Recognition and Measurement

9. IPSAS Standards set out reporting requirements that the International Public Sector Accounting Standards Board (IPSASB) has concluded will lead to financial statements that provide information about the financial position, financial performance and cash flows of an entity that is useful to the primary users of those statements. The entity is only required to apply recognition and measurement requirements when the effect of applying them is material.

Example A—Materiality Judgments on the Application of Accounting Policies

Background

An entity has a policy of capitalizing expenditures on items of property, plant and equipment in excess of a specified threshold and recognizing any smaller amounts as an expense.

Application

IPSAS 45, *Property, Plant and Equipment* requires that the cost of an item of property, plant and equipment is recognized as an asset when the criteria in paragraph 6 of IPSAS 45 are met.

The entity has assessed that its accounting policy—not capitalizing expenditure below a specific threshold—will not have a material effect on the current-period financial statements or on future financial statements, because information reflecting the capitalization and amortization of such expenditure could not reasonably be expected to influence decisions made by the primary users of the entity's financial statements.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, the entity's financial statements comply with IPSAS 45. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Example B—Materiality Judgments on the Application of Accounting Policies

Background

A Development Finance Institution provides low-interest short-term loans as part of a financing program targeting low-income households to retrofit their windows to reduce energy consumption.

The entity has a policy to measure the loans at amortized cost and to recognize interest revenue using simple interest.

Application

IPSAS 41 *Financial Instruments* requires interest revenue to be recognized using the effective interest method.

The entity has assessed its accounting policy—recognizing interest revenue using simple interest rather than calculating an effective interest rate. In conducting this assessment, the entity has assessed whether the use of simple interest at the individual loan and loan portfolio level for the specific program (i.e., individual and collective basis) materiality affects:

- Interest revenue recognized in surplus or deficit; and
- The carrying amount of loan receivables at the reporting date.

⁸ See paragraph 10 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

It concluded, it will not have a material effect on the current-period financial statements or on future financial statements, because of the nature of the loans (i.e., 12 months term, low interest and principal to be paid at maturity and no transaction costs), the program duration (3 years) and its immaterial size compare to the Development Finance Institution overall loan portfolio.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, the entity's financial statements comply with IPSAS 41. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Presentation and Disclosure

10. An entity need not provide a disclosure specified by an IPSAS Standard if the information resulting from that disclosure is not material. This is the case even if the Standard contains a list of specific disclosure requirements or describes them as 'minimum requirements'. Conversely, the entity must consider whether to provide information not specified by IPSAS Standards if that information is necessary for primary users to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows.⁹

Example C—Materiality Judgments on Disclosures Specified by IPSAS Standards

Background

An entity presents property, plant and equipment (PP&E) as a separate line item in its statement of financial position.

Application

IPSAS 45, *Property, Plant and Equipment* sets out specific disclosure requirements for PP&E, including the disclosure of the amount of contractual commitments for the acquisition of PP&E (paragraph 70(c) of IPSAS 45).

When preparing its financial statements, the entity assesses whether disclosures specified in IPSAS 45 are material information. Even if PP&E is presented as a separate line item in the statement of financial position, not all disclosures specified in IPSAS 45 will automatically be required. In the absence of any qualitative considerations (see paragraphs 48–53), if the amount of contractual commitments for the acquisition of PP&E is not material, the entity is not required to disclose this information.

⁹ See paragraphs 29(c) of IPSAS 1.

Example D—Materiality Judgments on Presentation Specified by IPSAS Standards

Background

IPSAS 1 requires that an entity separately present each material class of similar items in the financial statements, and items of a dissimilar nature or function to be presented separately, unless they are immaterial (paragraph 45 of IPSAS 1).

During the reporting period, an entity incurred cybersecurity-related expenses, such as system upgrades, monitoring services, and incident response support. Cybersecurity costs are included within “Supplies and services” in the statement of financial performance. This policy is based on a quantitative materiality judgment that compares cybersecurity costs to the entity's total expenses for the reporting period. The amount of the expense on its own was not considered to be material information.

Application

In reassessing its accounting policy in the current period, the entity notes there has been heightened parliamentary and public scrutiny of cybersecurity risks affecting government systems. Therefore, it is reasonable to conclude that the separate presentation of cybersecurity expenses could reasonably be expected to influence the decisions of primary users of its financial statements. Additionally, providing information on the cybersecurity costs incurred during the reporting period to safeguard sensitive citizen and critical public infrastructure information is expected to provide material information to the entity's primary users on the entity's discharge of accountability.

Example E—Materiality Judgments that Lead to the Disclosure of Information in Addition to the Specific Disclosure Requirements in IPSAS Standards

Background

Country A, as part of an international agreement, is committed to introducing regulations to reduce the use of carbon-based energy for the generation of electricity in its jurisdiction. The country's Energy Regulator has not yet enacted a regulation banning carbon-based energy in the national legislation at the end of the reporting period.

Country A's Power Generation entity owns a coal-fired power station. During the reporting period, the entity recorded an impairment loss on its coal-fired power station, reducing the carrying amount of the power station to its recoverable amount. No goodwill or intangible assets with an indefinite useful life were included in the cash-generating unit.

Application

Paragraph 123 of IPSAS 26, *Impairment of Cash-Generating Assets* does not require an entity to disclose the assumptions used to determine the recoverable amount of a tangible asset, unless goodwill or intangible assets with an indefinite useful life are included in the carrying amount of the cash-generating unit.

Nevertheless, Country A's Power Generation entity has concluded that the assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, it considered in measuring the recoverable amount of its coal-fired power station could reasonably be expected to influence decisions primary users make on the basis of the entity's financial statements. Hence, information about those assumptions is necessary for primary users to understand the impact of the impairment on the entity's financial position, financial performance, and cash flows. Therefore, even though not specifically required by IPSAS 26, Country A's Power Generation entity concludes that its assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, constitute material information and discloses those assumptions in its financial statements.

Judgment

11. When assessing whether information is material to the financial statements, an entity applies judgment to decide whether the information could reasonably be expected to influence the discharge of accountability by the entity or decisions that primary users make on the basis of those financial statements. When applying such judgment, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.
12. Because an entity's circumstances change over time, materiality judgments are reassessed at each reporting date in the light of those changed circumstances.

Primary Users and their Information Needs

13. When making materiality judgments, an entity needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements. Those primary users are service recipients, such as citizens, and their representatives and resource providers, such as taxpayers, donors, and lenders. and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise) —those users who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes and must rely on general purpose financial statements for much of the financial information they need.¹⁰ In addition to those primary users, other parties such as government statisticians, analysts, the media, financial advisors, public interest and lobby groups, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies, and in some cases, lending institutions and providers of development and other assistance, may be interested in financial information about the entity and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.¹¹
14. Because primary users include potential service recipients and resource providers, it would be inappropriate for an entity to narrow the information provided in its financial statements by focusing only on the information needs of existing service recipients and resource providers.

Example F—Identification of Primary Users

Background

A local government identifies ratepayers as common users of its financial statements, as they are resource providers (i.e., pay for water and waste management) to the municipality.

Application

The local government concludes that, in addition to ratepayers, the following are also primary users of its financial statements:

- Service recipients: citizens and parliamentarians (acting on behalf of taxpayers); and
- Resource providers: taxpayers, government grantors, and creditors.

Therefore, when making materiality judgments in preparing its financial statements, the local government's disclosures cannot be limited to its ratepayers' information needs. The local government also considers the information needs of other primary users, such as government grantors, parliamentarians (acting on behalf of taxpayers), and creditors, when making those judgments.

¹⁰ See paragraph 2.4 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*.

¹¹ See paragraph 2.6 of the *Conceptual Framework*.

15. When making materiality judgments, an entity also assumes that primary users have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read financial statements, and to review and analyze the information included presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in financial statements, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in financial statements in a manner that is understandable to a wide range of users.¹²

Discharge of Accountability by the Entity and Decisions Made by Primary Users

16. An entity needs to consider what type of decisions its primary users make on the basis of the financial statements and, consequently, what information they need to make those decisions.
17. The primary users of an entity's financial statements make decisions about the discharge of accountability of the entity by holding it accountable for the resources entrusted to it, as well as decisions about the performance of the entity during the reporting period, the entity's ability to meet its obligations as they become due, and an entity's ability to continue to provide services currently provide and other operations over the long term.
18. An entity is accountable to those that provide it with resources, and to those that depend on it to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulations, or other authorities that govern its service delivery and other operations.¹³
19. For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:
- (a) The performance of the entity during the reporting period in, for example:
 - (i) Meeting its service delivery and other operating and financial objectives;
 - (ii) Managing the resources it is responsible for;
 - (iii) Complying with relevant budgetary, legislative, and other authorities regulating the raising and use of resources;
 - (b) The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
 - (c) The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period; and
 - (d) The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.¹⁴
20. The information service recipients and resource providers need for these purposes are likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether

¹² See paragraph 3.18 of the Conceptual Framework.

¹³ See paragraph 2.8 of the Conceptual Framework.

¹⁴ See paragraph 2.11 of the Conceptual Framework.

- (a) The entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interest;
 - (b) The range, volume, and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
 - (c) Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.¹⁵
21. Resource providers will require information as input to assessments of such matters as whether the entity:
- (a) Is achieving the objectives established as the justification for the resources raised during the reporting period
 - (b) Funded current operations from funds raised in the current period from taxes or borrowings or other sources; and
 - (c) Is likely to need additional (or less) resources in the future, and the likely sources of those resources.
- Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended.¹⁶
22. Financial information can make a difference in decisions if it has confirmatory value, predictive value or both.¹⁷ When making materiality judgments, an entity needs to assess whether information could reasonably be expected to influence primary users' decisions, rather than assessing whether that information alone could reasonably be expected to change their decisions.

Meeting Primary Users' Information Needs

23. The objective of financial statements is to provide primary users with financial information that is useful to them for accountability and decision-making purposes. However, it is unlikely that general purpose financial statements will provide all the information that primary users need for accountability and decision-making purposes.¹⁸ Therefore, the entity aims to meet the common information needs of its primary users. It does not aim to address specialized information needs—information needs that are unique to particular users.

Example G—Primary Users' Unique or Individual Information Requests

Background

A school board provides educational materials to community groups within its jurisdiction. A donor, one of the resource providers, is particularly interested in information about the entity's expenditures in a specific location because the donor resides there. The school board's operations are primarily funded by a transfer from a higher level of government; as such, the school board is not dependent on donations to provide educational materials to community groups. Providing information of a specific community group could not reasonably be expected to influence decisions that other primary users make on the basis of the entity's financial statements.

Application

In making its materiality judgments, the entity does not need to consider the specific information needs of that single resource provider. The entity concludes that information about its expenditure in the specific location is

¹⁵ See paragraph 2.12 of the Conceptual Framework.

¹⁶ See paragraph 2.13 of the Conceptual Framework.

¹⁷ See paragraph 3.6 of the Conceptual Framework.

¹⁸ See paragraph 2.31 of the Conceptual Framework.

immaterial information for its primary users as a group and therefore decides not to provide it in its financial statements.

24. To meet the common information needs of its primary users, an entity first separately identifies the information needs that are shared by users within one of the two categories of primary users defined in the Conceptual Framework—for example service recipients—then repeats the assessment for resource providers. The total of the information needs identified is the set of common information needs the entity aims to meet.
25. In other words, the assessment of common information needs does not require identifying information needs shared across all service recipients and resource providers. Some of the identified information needs will be common to both categories, but others may be specific to only one category. If an entity were to focus only on those information needs that are common to all categories of primary users, it might exclude information that meets the needs of only one category.

Impact of Publicly Available Information

26. The primary users of financial statements generally consider information from sources other than just the financial statements. For example, they might also consider other sections of the annual report, information about the industry or governmental sector an entity operates in, its peers, and the state of the economy, the entity's public statements, as well as other documents the entity has published.
27. However, the financial statements are required to be a comprehensive document that provides information about the financial position, financial performance and cash flows of an entity that is useful to primary users for accountability and decision making purposes. Consequently, the entity assesses whether information is material to the financial statements, regardless of whether such information is also publicly available from another source.
28. Moreover, public availability of information does not relieve an entity of the obligation to provide material information in its financial statements.

Example H—Impact of an Entity's Public Statement on Materiality Judgments

Background

An entity undertook a public sector combination in the reporting period. The acquisition doubled the size of the entity's operations. On the acquisition date, the entity issued a public statement providing an extensive explanation of the primary reasons for the acquisition and a description of how it obtained control over the acquired entity, together with other information related to the acquisition.

Application

In preparing its financial statements, the entity first considered the disclosure requirements in IPSAS 40, *Public Sector Combinations*. Paragraph 120(d) of IPSAS 40 requires an entity to disclose, for each public sector combination that occurs during the reporting period, 'the primary reasons for the acquisition and a description of how the acquirer obtained control of the acquiree'.

The entity concludes that information about the public sector combination is material because the acquisition is expected to have a significant impact on the entity's operations, due to the overall size of the acquisition compared with the size of the entity. In these circumstances, even though information relating to the primary reasons for the public sector combination and the description of how it obtained control is already included in a public statement, the entity needs to provide the information in its financial statements.

Interaction with Local Laws and Regulations

29. An entity's financial statements must comply with the requirements in IPSAS Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IPSAS Standards cannot provide less information than the information required by the Standards, even if local laws and regulations permit otherwise.
30. Nevertheless, local laws and regulations may specify requirements that affect what information is provided in the financial statements. In such circumstances, providing information to meet legal or regulatory requirements is permitted by IPSAS Standards, even if that information is not material according to the materiality requirements in the Standards. However, such information must not obscure information that is material according to IPSAS Standards.¹⁹

Example I—Information that is Immaterial According to IPSAS Standards Required by Local Laws and Regulations

Background

Regulation requires all entities to disclose, in their financial statements, the aggregate amount of R&D expenditure incurred during the period when seeking reimbursement for the R&D expenditure from a higher-level government entity.

In the current reporting period, the entity recognized a small amount of expenditure on R&D activities as an expense. No R&D expenditure was capitalized during the period.

When preparing its financial statements, the entity assessed the disclosure of information about R&D expenditure, required in paragraph 125 of IPSAS 31, *Intangible Assets*, incurred during the period as immaterial, for IPSAS purposes.

Application

To comply with local regulations, the entity discloses in its financial statements information about R&D expenditure incurred during the period. IPSAS Standards permit the entity to disclose that information in its financial statements, but the entity needs to organize its disclosures to ensure that material information is not obscured.

Example J—Information that is Material According to IPSAS Standards not Required by Local Laws and Regulations

Background

A Government entity is required by legislation to disclose to its relevant finance ministry significant acquisitions and disposals of property, plant and equipment (PP&E), when the cost of the PP&E acquired or disposed of exceeds a specified percentage of the total costs of assets of an entity.

In the current reporting period, the entity disposed of PP&E below the legislative threshold specified in the regulation. This transaction was with a related party, which paid the entity less than the fair value of the item disposed of.

When preparing its financial statements, the entity applied judgment and concluded that information about the details of the disposal was material, mainly because of the terms of the transaction and the fact it was with a related party.

Application

¹⁹ See paragraph 12A(e) on IPSAS 1.

To comply with IPSAS 20, *Related Party Disclosures* paragraphs 27 and because the disposal of PP&E is considered material, the entity discloses details of that disposal even though regulations require disclosure of PP&E disposals only if the cost of the PP&E acquired or disposed of exceeds a specified percentage of total assets.

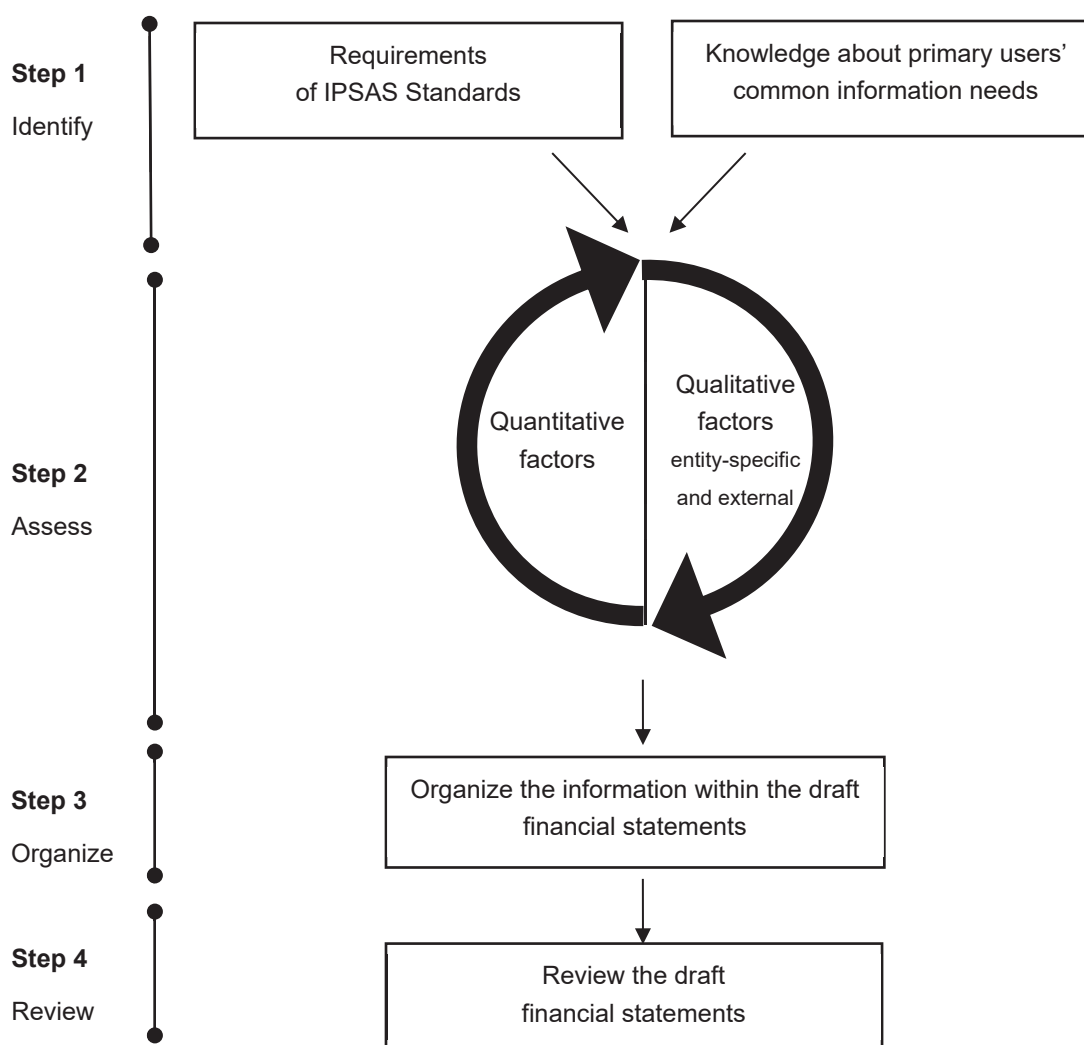
Making Materiality Judgments

Overview of the Materiality Process

31. An entity may find it helpful to follow a systematic process in making materiality judgments when preparing its financial statements. The four-step process described in the following paragraphs is an example of such a process. This description provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgments. In this IPSAS Practice Statement, this four-step process is called the 'materiality process'.
32. The materiality process describes how an entity could assess whether information is material for the purposes of presentation and disclosure, as well as for recognition and measurement. The process illustrates one possible way to make materiality judgments, but it incorporates the materiality requirements an entity must apply to state compliance with IPSAS Standards. The materiality process considers potential omission and potential misstatement of information, as well as unnecessary inclusion of immaterial information and whether immaterial information obscures material information. In all cases, the entity needs to focus on how the information could reasonably be expected to influence the discharge of accountability by the entity as well as decisions that the primary users make on the basis of its financial statements.
33. Judgment is involved in assessing materiality when preparing financial statements. The materiality process is designed as a practice guide to help an entity apply judgment in an efficient and effective way.
34. The materiality process is not intended to describe the assessment of materiality for legal and regulatory purposes. An entity refers to such requirements to assess whether it is compliant with local laws and regulations.

A Four-Step Materiality Process

35. The steps identified as a possible approach to the assessment of materiality in the preparation of the financial statements are, in summary:
 - (a) Step 1—Identify. Identify information that has the potential to be material.
 - (b) Step 2—Assess. Assess whether the information identified in Step 1 is, in fact, material.
 - (c) Step 3—Organize. Organize the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.
 - (d) Step 4—Review. Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.
36. When preparing its financial statements, an entity may rely on materiality assessments from prior periods, provided that it reconsiders them in the light of any change in circumstances and of any new or updated information.

Diagram 1—The Four-Step Materiality Process**Step 1—Identify**

37. An entity identifies information about its transactions, other events, and conditions that primary users might need to understand for accountability and decision making purposes.
38. In identifying this information, an entity considers, as a starting point, the requirements of the IPSAS Standards applicable to its transactions, other events, and conditions.
39. When the IPSASB develops an IPSAS Standard, it also considers the balance between the benefits of providing information and the costs of complying with the requirements in that Standard. However, the cost of applying the requirements in the Standards is not a factor for an entity to consider when making materiality judgments—the entity should not consider the cost of complying with requirements in IPSAS Standards, unless there is explicit permission in the Standards.
40. An entity also considers its primary users' common information needs (as explained in paragraphs 22–24) to identify any information—in addition to that specified in IPSAS Standards—necessary to enable primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (see paragraph 10). Service recipients and resource

providers need information about the performance of the entity during the reporting period, the liquidity and solvency of the entity, the sustainability of the entity's service delivery and the capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.²⁰

41. The output of Step 1 is a set of potentially material information.

Step 2—Assess

42. An entity assesses whether the potentially material information identified in Step 1 is, in fact, material. In making this assessment, the entity needs to consider whether the information could reasonably be expected to influence the discharge of accountability by the entity or the decisions that primary users make on the basis of the financial statements. The entity performs this assessment in the context of the financial statements as a whole.
43. An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or amount judged in the particular circumstances of each entity.²¹ Therefore, making materiality judgments involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 54–57).
44. The following paragraphs describe some common 'materiality factors' that an entity should use to help identify when an item of information is material. These factors are organized into the following categories:
- (a) Quantitative; and
 - (b) Qualitative—either entity-specific or external.
45. The output of Step 2 is a preliminary set of material information. For presentation and disclosure, this involves decisions about what information an entity needs to provide in its financial statements, and in how much detail²² (including identifying appropriate levels of aggregation an entity provides in the financial statements). For recognition and measurement, the output of Step 2 involves the identification of information that, if not recognized or otherwise misstated, could reasonably be expected to influence the discharge of accountability by the entity or the decisions that primary users make on the basis of the entity's financial statements.

Quantitative Factors

46. An entity ordinarily assesses whether information is quantitatively material by considering the amount of the impact of the transaction, other event or condition against measures of the entity's financial position, financial performance and cash flows. The entity makes this assessment by considering not only the amount of the impact it recognizes in its primary financial statements but also any unrecognized items that could ultimately affect primary users' overall perception of the entity's financial position, financial performance and cash flows (e.g., contingent liabilities or contingent assets). The entity needs to assess whether the impact is of such an amount that information about the transaction, other event or condition could reasonably be expected to influence the discharge of accountability by the entity or the decisions that its primary users make on the basis of the entity's financial statements.
47. Identifying the measures against which an entity makes this quantitative assessment is a matter of judgment. That judgment depends on which measures are of great interest to the primary users of the entity's financial

²⁰ See paragraph 2.11 of the *Conceptual Framework*.

²¹ See paragraph 12A of IPSAS 1.

²² See paragraph 45 of IPSAS 1.

statements. Examples include measures of the entity's revenues and expenses, the entity's net assets/equity, financial position ratios and cash flow measures.

Qualitative Factors

48. For the purposes of this [draft] IPSAS Practice Statement, qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.
49. In making materiality judgments, an entity considers both entity-specific and external qualitative factors. These factors are described separately in the following paragraphs. However, in practice, the entity may need to consider them together.
50. An entity-specific qualitative factor is a characteristic of the entity's transaction, other event or condition. Examples of such factors include, but are not limited to:
- (a) Links to a policy or service delivery objective;
 - (b) Involvement of a related party of the entity;
 - (c) Uncommon, or non-standard, features of a transaction or other event or condition; or
 - (d) Unexpected variation or unexpected changes in budget or trends. In some circumstances, the entity might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.
51. The relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates. An external qualitative factor is a characteristic of the context in which the entity's transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions. Characteristics of the entity's context that might represent external qualitative factors include, but are not limited to, the entity's geographical location, its industry or governmental sector, or the state of the economy or economies in which the entity operates.
52. Due to the nature of external qualitative factors, entities operating in the same context might share a number of external qualitative factors. Moreover, external qualitative factors could remain constant over time or could vary.
53. In some circumstances, if an entity is not exposed to a risk to which other entities in its geographical location or industry, or governmental sector are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

Interaction of Qualitative and Quantitative Factors

54. An entity could identify an item of information as material on the basis of one or more materiality factors. In general, the more factors that apply to a particular item, or the more significant those factors are, the more likely it is that the item is material.
55. Although there is no hierarchy among materiality factors, assessing an item of information from a quantitative perspective first could be an efficient approach to assessing materiality. If an entity identifies an item of information as material solely on the basis of the amount of the impact of the transaction, other event or condition, the entity does not need to assess that item of information further against other materiality factors. In these circumstances, a quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—can be a helpful tool in making a materiality judgment. However, a quantitative

assessment alone is not always sufficient to conclude that an item of information is not material. The entity should further assess the presence of qualitative factors.

56. The presence of a qualitative factor lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be. However, in some cases an entity might decide that, despite the presence of qualitative factors, an item of information is not material because its effect on the financial statements is so small that it could not reasonably be expected to influence the discharge of accountability by the entity, or decisions made by its primary users.
57. In some other circumstances, an item of information could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions regardless of its amount—a quantitative threshold could even be reduced to zero. This might happen when information about a transaction, other event or condition is highly scrutinized by the primary users of an entity's financial statements. Such as disclosure of information about compliance or non-compliance with legislation, regulation, or other authority may be material because of its nature.²³ Moreover, a quantitative assessment is not always possible: non-numeric information might only be assessed from a qualitative perspective.

Example K—Information about a Related Party Transaction Assessed as Material

Background

An entity has identified total expenses as the measures of great interest to the primary users of its financial statements due to government's increased focus on cost containment. In the current reporting period, the entity signed a five-year contract with company ABC. Company ABC will provide the entity with maintenance services for the entity's offices for an annual fee. Company ABC is controlled by a member of the entity's key management personnel. Hence, company ABC is a related party of the entity.

Application

IPSAS 20, *Related Party Disclosures* requires an entity to disclose, for each related party transaction that occurred during the period, the nature of the related party relationship as well as information about the transaction and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

When preparing its financial statements, the entity assessed whether information about the transaction with company ABC was material.

The entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against total expenses. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

As the Board noted in developing IPSAS 20, related parties may enter into transactions that unrelated parties would not enter into, and the transactions may be priced at amounts that differ from the price for transactions between unrelated parties.

The entity identified the fact that the maintenance agreement was concluded with a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective to determine whether the impact of the transaction could reasonably be expected to influence primary users' decisions when considered with the fact that the transaction was with a related party (i.e., the presence of a qualitative factor lowers the quantitative threshold). Having considered that the transaction was with a related party, the entity concluded that the impact was large

²³ See paragraph 3.33 of the *Conceptual Framework*.

enough to reasonably be expected to influence primary users' decisions. Hence, the entity assessed information about the transaction with company ABC as material and disclosed that information in its financial statements.

Example L—Information about a Related Party Transaction Assessed as Immaterial

Background

An entity has identified measures of its surplus/deficit as the measures of great interest to the primary users of its financial statements. The entity owns a large fleet of vehicles. In the current reporting period, the entity sold an almost fully depreciated vehicle to company DEF. The entity transferred the vehicle for total consideration consistent with its market value and its carrying amount. Company DEF is controlled by a member of the entity's key management personnel. Hence, company DEF is a related party of the entity.

Application

When preparing its financial statements, the entity assessed whether information about the transaction with company DEF was material.

As in Example L, the entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the entity's surplus/deficit. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

The entity transferred the vehicle for a total consideration consistent with its market value and its carrying amount. However, the entity identified the fact that the vehicle was sold to a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective but concluded that its impact was too small to reasonably be expected to influence primary users' decisions, even when considered with the fact that the transaction was with a related party. Information about the transaction with company DEF was consequently assessed as immaterial and not disclosed in the entity's financial statements.

Example M—Influence of External Qualitative Factors on Materiality Judgments

Background

A Development Bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other Development Banks hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

Application

Paragraph 38 of IPSAS 30, *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

When preparing its financial statements, the Development Bank assessed whether the fact that it holds a very small amount of debt originating from that country was material information.

In making that assessment, the Development Bank considered the exposure to that particular debt faced by other Development Banks (external qualitative factor).

In these circumstances, the fact that the Development Bank is holding a very small amount of debt (or even no debt at all) originating from that country, while other Development Banks have significant holdings, provides the entity's primary users with useful information about how effective management has been at protecting the bank's resources from unfavorable effects of the economic conditions in that country.

The Development Bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Step 3—Organize

58. Classifying, characterizing and presenting information clearly and concisely makes it understandable.²⁴ An entity exercises judgment when deciding how to communicate information clearly and concisely. For example, the entity is more likely to clearly and concisely communicate the material information identified in Step 2 by organizing it to:
- (a) Emphasize material matters;
 - (b) Tailor information to the entity's own circumstances;
 - (c) Describe the entity's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;
 - (d) Highlight relationships between different pieces of information;
 - (e) Provide information in a format that is appropriate for its type, e.g., tabular or narrative;
 - (f) Provide information in a way that maximizes, to the extent possible, comparability among entities and across reporting periods;
 - (g) Avoid or minimize duplication of information in different parts of the financial statements; and
 - (h) Ensure material information is not obscured by immaterial information.
59. Financial statements are less understandable for primary users if information is organized in an unclear manner. Similarly, financial statements are less understandable if an entity aggregates material items that have different natures or functions, or if material information is obscured,²⁵ for example, by an excessive amount of immaterial information.
60. Furthermore, an entity considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.
61. The output of Step 3 is the draft financial statements.

Step 4—Review

62. An entity needs to assess whether information is material both individually and in combination with other information²⁶ in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.
63. When reviewing its draft financial statements, an entity draws on its knowledge and experience of its transactions, other events and conditions to identify whether all material information has been provided in the financial statements, and with appropriate prominence.
64. This review gives an entity the opportunity to 'step back' and consider the information provided from a wider perspective and in aggregate. This enables the entity to consider the overall picture of its financial position, financial performance and cash flows. In performing this review, the entity also considers whether:

²⁴ See paragraph 3.17 of the *Conceptual Framework*.

²⁵ See paragraph 12A(c) of IPSAS 1.

²⁶ See paragraph 12A of IPSAS 1.

- (a) All relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time;
- (b) Items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions;
- (c) The information in the financial statements is communicated in an effective and understandable way, and organized to avoid obscuring material information; and
- (d) The financial statements provide a fair presentation of the entity's financial position, financial performance and cash flows.²⁷

65. The review may lead to:

- (a) Additional information being provided in the financial statements;
- (b) Greater disaggregation of information that had already been identified as material;
- (c) Information that had already been identified as immaterial being removed from the financial statements to avoid obscuring material information; or
- (d) Information being reorganized within the financial statements.

66. The review in Step 4 may also lead an entity to question the assessment performed in Step 2 and decide to re-perform that assessment. As a result of re-performing its assessment in Step 2, the entity might conclude that information previously identified as material is, in fact, immaterial, and remove it from the financial statements.

67. The output of Step 4 is the final financial statements.

Specific Topics

Prior-Period Information

68. An entity makes materiality judgments on the complete set of financial statements, including prior-period²⁸ information provided in the financial statements.
69. IPSAS Standards require an entity to present information in respect of the preceding period for all amounts reported in the current-period financial statements.²⁹ Furthermore, the Standards require the entity to provide prior-period information for narrative and descriptive information if it is relevant to understanding the current-period financial statements.³⁰ Finally, the Standards require the entity to present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one statement of cash flows with comparative information for the preceding period, one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.³¹
70. Assessing whether prior-period information is material to the current-period financial statements might lead an entity to:

²⁷ See paragraph 27 of IPSAS 1.

²⁸ For this [Document Type], 'prior-period' should be read as 'prior-periods' if financial statements include amounts and disclosures for more than one prior period.

²⁹ Except when IPSAS Standards permit or require otherwise. See paragraph 53 of IPSAS 1.

³⁰ See paragraph 53 of IPSAS 1.

³¹ See paragraph 53A of IPSAS 1.

- (a) Provide more prior-period information than was provided in the prior-period financial statements (see paragraph 71); or
- (b) Provide less prior-period information than was provided in the prior-period financial statements (see paragraph 72).

71. An entity also needs to consider any local laws or regulations, in respect of the prior-period information to be provided in financial statements, when making decisions on what prior-period information to provide in the current-period financial statements. Those local laws or regulations might require the entity to provide in the financial statements prior-period information in addition to the minimum comparative information required by the Standards. IPSAS Standards do not preclude the inclusion of such additional information, but require that it does not obscure material information.³² However, an entity that wishes to state compliance with IPSAS Standards cannot provide less information than required by the Standards, even if local laws and regulations permit otherwise.

Prior-Period Information not Previously Provided

72. An entity must provide prior-period information needed to understand the current-period financial statements, regardless of whether that information was provided in the prior-period financial statements—this requirement is not conditional on whether the prior-period information was provided in the prior-period financial statements.³³ Consequently, the inclusion of prior-period information not previously included would be required if this is necessary for the primary users to understand the current-period financial statements.

Example N—Prior-Period Information not Previously Provided

Background

In the prior period, an entity had a very small amount of debt outstanding. Information about this debt was appropriately assessed as immaterial in the prior period, and so the entity did not disclose any maturity analysis showing the remaining contractual maturities or other information that would otherwise be required by paragraph 46(a) of IPSAS 30, *Financial Instruments: Disclosures*.

In the current period, the entity issued a large amount of debt. The entity concluded that information about debt maturity was material information and disclosed it, in the form of a table, in the current-period financial statements.

Application

The entity might conclude that including a prior-period debt maturity analysis in the financial statements would be necessary for primary users to understand the current-period financial statements. In these circumstances, a narrative description of the maturity of the prior-period balances of the outstanding debt might be sufficient.

Summarizing Prior-Period Information

73. Except to the extent required to comply with any local laws or regulations affecting the preparation of financial statements or their audit, an entity does not automatically reproduce in the current-period financial statements all the information provided in the prior-period financial statements. Instead, the entity may summarize prior-period information, retaining the information necessary for primary users to understand the current-period financial statements.

³² See paragraph 12A of IPSAS 1.

³³ See paragraph 53 of IPSAS 1.

Example O—Summarizing Prior-Period Information

Background

An entity disclosed, in the prior-period financial statements, details of a legal dispute which led to the recognition, in that period, of a provision. In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* the entity disclosed in the prior-period financial statements a detailed description of uncertainties about the amount and timing of possible cash outflows, in respect of the dispute, together with the major assumptions made concerning future events.

Most of the uncertainties have been resolved in the current period, and, even though the liability has not been settled, a court pronouncement confirmed the amount already recognized in the financial statements by the entity.

The entity considered the relevant local laws, regulations and other reporting requirements and concluded that there were no prescribed obligations relating to the inclusion of prior-period information in the current-period financial statements.

Application

In these circumstances, on the basis of the requirements in IPSAS Standards, the entity may not need to reproduce in the current-period financial statements all of the information about the legal dispute provided in the prior-period financial statements. Because most of the uncertainties have been resolved, users of the financial statements for the current period may no longer need detailed information about those uncertainties. Instead, information about those uncertainties might be summarized and updated to reflect the current-period events and circumstances and the resolution of previously reported uncertainties.

Errors

74. Errors are omissions from and/or misstatements in an entity's financial statements arising from a failure to use, or misuse of, faithfully representative information that is available, or could reasonably be expected to be obtained.³⁴ Material errors are errors that individually or collectively could reasonably be expected to influence the discharge of accountability by the entity or decisions that primary users make on the basis of those financial statements. Errors may affect narrative descriptions disclosed in the notes as well as amounts reported in the primary financial statements or in the notes.
75. An entity must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance or cash flows, to ensure compliance with IPSAS Standards.³⁵ The entity should refer to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for guidance on how to correct an error.
76. Immaterial errors, if not made intentionally to achieve a particular presentation, do not need to be corrected to ensure compliance with IPSAS Standards. However, correcting all errors (including those that are not material) in the preparation of the financial statements lowers the risk that immaterial errors will accumulate over reporting periods and become material.
77. An entity assesses whether an error is material by applying the same considerations as outlined in the description of the materiality process. Making materiality judgments about errors involves both quantitative and qualitative considerations. The entity identifies information that, if misstated or omitted, could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions (as described in Step 1 and Step 2 of the materiality process). The entity also considers whether any identified errors are material on a collective basis (as described in Step 4 of the materiality process).

³⁴ See paragraph 7 of IPSAS 3.

³⁵ See paragraph 46 of IPSAS 3.

78. If an error is judged not to be material on its own, it might be regarded as material when considered in combination with other information. However, in general, if an error is individually assessed as material to an entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in the opposite way, does not make the error immaterial, nor does it eliminate the need to correct the error.

Example P—Individual and Collective Assessment of Errors

Background

An entity has identified measures of its surplus/deficit as the measures of great interest to the primary users of its financial statements. During the current reporting period, the entity recognized:

- (a) An expense accrual of CU100 that should not have been recognized. The accrual affected the line item 'Other operating expenses'; and
- (b) The reversal of a provision of CU80 recognized in the previous period that should not have been reversed. The reversal affected the line item 'other operating income'.

Application

In assessing whether these errors are material to its financial statements, the entity did not identify the presence of any qualitative factors and thus made its materiality judgment solely from a quantitative perspective. The entity concluded that both errors were individually material because of their impact on its surplus/deficit.

In these circumstances, it would be inappropriate to consider the quantitative effect of the errors on a net basis, i.e., as a CU20 overstatement of expenses, thereby concluding that the identified errors do not need to be corrected. If an error is individually assessed as material to the entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in an opposite way, does not eliminate the need to correct it, or make the error immaterial.

Cumulative Errors

79. An entity may, over a number of reporting periods, accumulate errors that were immaterial, both in individual prior periods and cumulatively over all prior periods. Uncorrected errors that have accumulated over more than one period are sometimes called 'cumulative errors'.
80. Materiality judgments about cumulative errors in prior-period financial statements that an entity made at the time those statements were authorized for issue need not be revisited in subsequent periods unless the entity failed to use, or misused, information that:
- (a) Was available when financial statements for those periods were authorized for issue; and
 - (b) Could reasonably be expected to have been obtained and taken into account in the preparation of those financial statements.³⁶
81. To assess whether a cumulative error has become material to the current-period financial statements, an entity considers whether, in the current period:
- (a) The entity's circumstances have changed, leading to a different materiality assessment for the current period; or
 - (b) Further accumulation of a current-period error onto the cumulative error has occurred.

³⁶ See paragraph 7 of IPSAS 3.

82. An entity must correct cumulative errors if they have become material to the current-period financial statements.

Example Q—Current-Period Assessment of Cumulative Errors

Background

An entity, three years ago, purchased a school building. The school building has a useful life of 50 years and a residual value amounting to 20 per cent of the school building cost. The entity started to use the school building three years ago, but has not recognized any depreciation for it (cumulative error). In each prior period, the entity assessed the error of not depreciating its school as being individually and cumulatively immaterial to the financial statements for that period. There is no indication that the materiality judgments of prior periods were wrong.

In the current period, the entity started depreciating the school building.

In the same period, the entity experienced a significant reduction in its budgeted expenditure (the type of circumstance referred to in paragraph 81(a) of the [draft] IPSAS Practice Statement).

Application

When making its materiality judgments in the preparation of the current-period financial statements, the entity concluded that the cumulative error was material to the current-period financial statements.

In this scenario, the entity does not need to revisit the materiality assessments it made in prior periods. However, because in the current period the cumulative error has become material to the current-period financial statements, the entity must apply the requirements in IPSAS 3 to correct it.

Information about Covenants

83. An entity assesses the materiality of information about the existence and terms of a loan agreement clause (covenant), or of a covenant breach, to decide whether to provide information related to the covenant in the financial statements. This assessment is made in the same way as for other information, that is, by considering whether that information could reasonably be expected to influence the discharge of accountability by the entity or decisions that its primary users make on the basis of the entity's financial statements (see 'A four-step materiality process', from paragraph 34).
84. In particular, when a covenant exists, an entity considers both:
- (a) The consequences of a breach occurring, that is, the impact a covenant breach would have on the entity's financial position, financial performance and cash flows. If those consequences would affect the entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions, then the information about the existence of the covenant and its terms is likely to be material. Conversely, if the consequences of a covenant breach would not affect the entity's financial position, financial performance or cash flows in such a way, then disclosures about the covenant might not be needed.
 - (b) The likelihood of a covenant breach occurring. The more likely it is that a covenant breach would occur, the more likely it is that information about the existence and terms of the covenant would be material.
85. In assessing whether information about a covenant is material, a combination of the considerations in paragraph 84(a)–84(b) applies. Information about a covenant for which the consequences of a breach would affect an entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions, but for which there is only a remote likelihood of the breach occurring, is not material.

Example R—Assessing Whether Information about Covenants is Material

Background

A hospital has taken out a loan to finance its new building and recently suffered some liquidity problems. A long-term loan was granted to the entity in the current reporting period. The loan agreement includes a clause that requires the entity to maintain a debt service coverage ratio below a specified threshold, to be measured at each reporting date (the covenant). According to the loan agreement, the debt service coverage ratio has to be calculated on the basis of debt and revenue figures as presented in the entity's IPSAS Standards financial statements. If the hospital breaches the covenant, the entire loan becomes payable on demand. The disclosure of covenant terms in an entity's financial statements is not required by any local laws or regulations.

Application

Paragraph 38 of IPSAS 30, *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

Paragraph 87A of IPSAS 1 requires an entity to disclose, in specified circumstances, information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

In the preparation of its financial statements, the hospital assesses whether information about the existence of the covenant and its terms is material information, considering both the consequences and the likelihood of a breach occurring.

In these circumstances, the hospital concluded that, considering its recent liquidity problem, any acceleration of the long-term loan repayment plan (the consequence of the covenant breach occurring) would affect the hospital's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions.

The hospital also considered the likelihood of a breach occurring.

Scenario —The lender defined the covenant threshold as net revenue must be at least 1.2x annual debt service obligations

In this scenario, even though the hospital has historically met this threshold, because of its liquidity problems, it assessed the likelihood of a breach occurring as higher than remote. Therefore, information about the existence of the covenant and its terms was assessed as material and disclosed in the hospital's financial statements.

Application date

86. This [draft] IPSAS Practice Statement does not change any requirements in IPSAS Standards or introduce any new requirements. An entity that chooses to apply the guidance in the [draft] IPSAS Practice Statement is permitted to apply it to financial statements prepared from [MONTH DD, YYYY].

Appendix

References to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and IPSAS Standards

Extracts from the Conceptual Framework for Financial Reporting

Paragraph 2.4

Referred to in paragraph 13 of the [draft] IPSAS Practice Statement

Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as “service recipients and resource providers”, unless identified otherwise).

Paragraph 2.6

Referred to in paragraph 13 of the [draft] IPSAS Practice Statement

GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Paragraph 2.8

Referred to in paragraph 17 of the [draft] IPSAS Practice Statement

Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity’s management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity’s service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

Paragraph 2.11

Referred to in paragraphs 18 and 39 of the [draft] IPSAS Practice Statement

For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for;
 - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
 - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control;
 - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

Paragraph 2.12

Referred to in paragraph 20 of the [draft] IPSAS Practice Statement

The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

Paragraph 2.13

Referred to in paragraph 21 of the [draft] IPSAS Practice Statement

Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of

whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

Paragraph 2.31

Referred to in paragraphs 23 of the [draft] IPSAS Practice Statement

GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Paragraph 3.6

Referred to in paragraph 22 of the [draft] IPSAS Practice Statement

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

Paragraph 3.17

Referred to in paragraph 58 of the [draft] IPSAS Practice Statement

Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

Paragraph 3.18

Referred to in paragraph 15 of the [draft] IPSAS Practice Statement

Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Paragraph 3.33

Referred to in paragraph 57 of the [draft] IPSAS Practice Statement

Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Extracts from IPSAS 1, *Presentation of Financial Statements*

Paragraph 7

Referred to in paragraph 5 of the [draft] IPSAS Practice Statement

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's financial statements prepared for that reporting period.

Paragraph 12A

Referred to in paragraphs 5, 30, 43, 59, 62, and 71 of the [draft] IPSAS Practice Statement

Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- (a) Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) Information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) Dissimilar items, transactions or other events are inappropriately aggregated;
- (d) Similar items, transactions or other events are inappropriately disaggregated; and
- (e) The understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Paragraph 13

Referred to in paragraph 6 of the [draft] IPSAS Practice Statement

Assessing whether information could reasonably be expected to influence the discharge of accountability by the entity, or decisions made by primary users of a specific reporting entity's general purpose financial statements, requires an entity to consider consideration of the characteristics of those users while also considering the entity's own circumstances.

Paragraph 21

Referred to in paragraph 8 of the [draft] IPSAS Practice Statement

A complete set of financial statements comprises:

- (a) A statement of financial position;
- (b) A statement of financial performance;

- (c) A statement of changes in net assets/equity;
- (d) A cash flow statement;
- (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;
- (f) Notes, comprising a summary of significant accounting policies and other explanatory notes; and
- (g) Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.

Paragraph 27

Referred to in paragraph 64 of the [draft] IPSAS Practice Statement

Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

Paragraph 29

Referred to in paragraph 10 of the [draft] IPSAS Practice Statement

In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSAS. A fair presentation also requires an entity:

- (a) To select and apply accounting policies in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.
- (b) To present information, including accounting policies, in a manner that provides relevant, faithfully representative, understandable, timely, comparable, and verifiable information.
- (c) To provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

Paragraph 45

Referred to in paragraph 45 of the [draft] IPSAS Practice Statement

Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.

Paragraph 53

Referred to in paragraphs 69 and 72 of the [draft] IPSAS Practice Statement

Except when an IPSAS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Paragraph 53A

Referred to in paragraph 69 of the [draft] IPSAS Practice Statement

An entity shall present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one cash flow

statement with comparative information for the preceding period and one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.

Extracts from IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 7

Referred to in paragraphs 74 and 80 of the [draft] IPSAS Practice Statement

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

- (a) Was available when financial statements for those periods were authorized for issue; and
- (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Paragraph 10

Referred to in paragraph 8 of the [draft] IPSAS Practice Statement

IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSAS to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

Paragraph 46

Referred to in paragraph 75 of the [draft] IPSAS Practice Statement

Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with IPSAS if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47–52).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS Practice Statement, Making Materiality Judgments.

Introduction

- BC1. [draft] IPSAS Practice Statement, *Making Materiality Judgments* was drawn primarily from IFRS® Practice Statement 2: *Making Materiality Judgements* (revised 2018) issued by the International Accounting Standards Board (IASB) in September 2017.
- BC2. In March 2025, the IPSASB approved the *Making Materiality Judgments* project brief to develop non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS aligned with IFRS Practice Statement 2: *Making Materiality Judgements*.
- BC3. The IPSASB's policy document, [*Process for Reviewing and Modifying IASB Documents*](#), sets out the process the IPSASB follows when developing an aligned Standard. The first step in the process is to consider whether there are any public-sector issues that warrant a departure from an IASB document.
- BC4. In determining whether public sector issues warrant a departure from an IASB document, the IPSASB considers the following:
- (a) Whether applying the requirements of the IASB document would mean that the objectives of public sector financial reporting would not be adequately met;
 - (b) Whether applying the requirements of the IASB document would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and
 - (c) Whether applying the requirements of the IASB document would require undue cost or effort.
- BC5. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS Practice Statement and outlines only those areas where [draft] IPSAS Practice Statement departs from the non-mandatory guidance in IFRS Practice Statement 2: *Making Materiality Judgements*.

Background

Reasons for Undertaking the Project on Making Materiality Judgments

- BC6. The IPSASB undertook this project to address stakeholders' feedback received on its [*2021 Mid-Period Work Program Consultation*](#). The feedback received highlighted that some entities have difficulty making materiality judgments and tend to use disclosure requirements in IPSAS Standards as a checklist rather than applying judgment to determine which information is material and should be included in the general purpose financial statements. Respondents to the 2021 Mid-Period Work Program Consultation indicated strong support for the IPSASB developing guidance aligned with IFRS Practice Statement 2: *Making Materiality Judgements*.

Form of the Guidance

- BC7. Consistent with the approved project brief, [draft] IPSAS Practice Statement includes non-mandatory guidance on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards. The IPSASB agreed that this guidance would not be applicable to Cash Basis IPSAS Accounting Standards. Entities applying IPSAS Standards are not required to comply with guidance in [draft] IPSAS Practice Statement to state compliance with those IPSAS Standards.
- BC8. The IPSASB is proposing to issue this non-mandatory guidance in a new type of document because:
- (a) Including the guidance as non-authoritative guidance in an IPSAS Standard, such as IPSAS 1, *Presentation of Financial Statements*, where the definition of material information is included, will fail

to emphasize the pervasiveness of the concept of materiality throughout IPSAS Standards. This is because an entity makes materiality judgments when deciding on recognition, measurement, presentation, and disclosure across IPSAS Standards.

- (b) Issuing the guidance as a new Recommended Practice Guidelines (RPG) would conflict with the role of RPGs in the IPSASB's reporting landscape. These are non-authoritative pronouncements that provide guidance on good practices in preparing general purpose financial reports that are not financial statements.

BC9. [draft] IPSAS Practice Statement proposes guidance in four areas:

- (a) General characteristics of materiality;
- (b) Interaction with local laws and regulations;
- (c) Making materiality judgments (a four-step materiality process); and
- (d) Specific topics on prior period information, errors, and information about covenants.

Adaptation Process

BC10. When adapting the non-mandatory guidance IFRS Practice Statement 2: *Making Materiality Judgements* to the public sector context, the [Process for Reviewing and Adapting IASB Documents](#) requires the IPSASB to make its decisions within the following framework:

- (a) Consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework); and
- (b) Internal consistency with IPSAS Standards.

Objective

BC11. Consistent with the project scope, the objective of this [draft] IPSAS Practice Statement is to provide entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Standards.

General Characteristics of Materiality

BC12. The IPSASB replaced:

- (a) The definition of material with the definition of material in IPSAS 1, *Presentation of Financial Statements*, as amended by the pronouncement *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in May 2025. This definition's principles are reflected across [draft] IPSAS Practice Statement:

Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's GPFRs prepared for that reporting period.

Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

- (b) The description of primary users from 'existing and potential investors, lenders and other creditors' to 'service recipients and their representatives and resource providers and their representatives'.

BC13. The IPSASB adapted the following for consistency with the Conceptual Framework and IPSAS Standards:

- (a) Materiality Judgments are Pervasive;
- (b) Primary Users and their Information Needs; and

(c) Interaction with Local Laws and Regulations.

BC14. The IPSASB adapted examples to the public sector context, as per paragraph BC10, and is proposing the inclusion of new examples to better reflect the application of materiality by public sector:

- (a) An example illustrating materiality judgments on measurement principles in IPSAS Standards, see Example B.
- (b) An example illustrating materiality judgments on the classification and presentation of financial statements elements based on qualitative considerations, see Example D.
- (c) An example illustrating the identification of an entity's financial statements' primary users, see Example F.

BC15. The IPSASB decided to remove the guidance and example related to an entity's materiality judgments concerning potential primary users' information needs. The guidance states that focusing solely on the information needs of existing primary users, rather than both existing and potential users, would be inappropriate. The IPSASB proposes to delete this because the primary users described in the Conceptual Framework do not include 'potential' primary users.

Interaction with Local Laws and Regulations

BC16. The IPSASB adapted 'Interaction with Local Laws and Regulations' for consistency with the Conceptual Framework and IPSAS Standards. In adapting this section, the IPSASB considered whether to include a section on the interaction between materiality and approved budgets.

BC17. The IPSASB decided that including such a section would be outside the scope of the project and the objective of the [draft] IPSAS Practice Statement because:

- (a) An approved budget is not a financial statement. The objective of the [draft] IPSAS Practice Statement; is to provide entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Standards;
- (b) Offering guidance on how materiality interacts with the approved budget is beyond the IPSASB's responsibilities and could conflict with local budgetary requirements; and
- (c) This section states that an entity can comply with laws and regulations, provided that, in doing so, material information is not obscured and the financial statements are in compliance with IPSAS Standards. This section does not preclude an entity from considering budgetary law.

Making Materiality Judgments

BC18. This section includes a four-step materiality process that illustrates a possible way entities can make materiality judgments systematically when preparing general purpose financial statements in accordance with IPSAS Standards. The materiality process identifies four sequential steps: identify, assess, organize, and review. The IPSASB adaptations to this section build on those to 'General Characteristics of Materiality' and are consistent with guidance in the Conceptual Framework and IPSAS Standards.

Specific Topics

BC19. IFRS Practice Statement 2: *Making Materiality Judgements* provides additional non-mandatory guidance on making materiality judgments on the following specific topics:

- (a) Prior-period information;
- (b) Errors;
- (c) Information about covenants;

- (d) Materiality judgments for interim reporting; and
- (e) Information about accounting policies.

- BC20. The IPSASB adapted the specific topics for consistency with the Conceptual Framework and IPSAS Standards, except for 'Materiality Judgments for Interim Reporting' and 'Information about Accounting Policies', which were removed. The IPSASB decided to remove these, considering the scope of the project—to develop non-mandatory guidance on making materiality judgments when applying the existing principles of the IPSAS Standards.
- BC21. These two sections are based on IASB's guidance, for which there is no equivalent IPSAS Standard or aligned guidance within an IPSAS Standard:
- (a) The non-mandatory guidance on 'Materiality Judgments for Interim Reporting' is based on IAS 34 *Interim Financial Reporting* for which there is no equivalent IPSAS Standard. The IPSASB's Process for Reviewing and Adapting IASB Documents notes that references to an IASB document for which there is no equivalent IPSAS Standard should be replaced with 'the relevant international or national accounting standard dealing with the specific topic'. However, because preparing interim financial reports is not a common practice by public sector entities, the IPSASB decided to remove such specific topic.
 - (b) The non-mandatory guidance on 'Information about Accounting Policies' pertains to principles outlined in the *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) (Consequential Amendments)*, issued by the IASB in February 2021. The IPSASB has an active project on Presentation of Financial Statements that will consider this IASB pronouncement; as such, time amendments to this [draft] IPSAS Practice Statement are expected to be proposed.
- BC22. In adapting the specific topic on 'Information about covenants', the IPSASB considered whether this section should also address materiality judgments on funding conditions, given their prevalence in the public sector. The IPSASB decided not to expand the scope of this specific topic, considering:
- (a) The section discusses how the existence of a covenant or similar contractual term could influence materiality judgments. However, funding conditions may or may not be contractual in nature.
 - (b) The [draft] IPSAS Practice Statement includes example I illustrating the application of materiality on funding conditions.

Alternative View

Alternative View of Mr. Andrew van der Burgh

- AV1. In both the private and public sectors, materiality is fundamental to ensuring that the objective of financial reporting is met, namely to provide primary users with the information they need. In developing guidance on making materiality judgments in the public sector, there are key differences from the private sector to be considered, including:
- (a) The primary user base is broader and does not consist only of investors, but resource providers (and their representatives) and service recipients (and their representatives);
 - (b) Users' information needs extend beyond making financing and investment decisions to information that enables users to hold entities accountable for the public resources entrusted to them and for service delivery; and
 - (c) The highly legislated environment and the emphasis on accountability for how public funds are spent means that qualitative factors may be more prevalent than in the private sector.
- AV2. Mr. van der Burgh supports the IPSASB's objective to provide non-mandatory guidance to assist public sector entities in making materiality judgments. Mr van der Burgh also supports the approach to align the guidance with IFRS® Practice Statement 2: *Making Materiality Judgements* (revised 2018) issued by the International Accounting Standards Board (IASB). However, he disagrees that the proposals in Exposure Draft 97 are sufficiently adapted to the public sector context to meet the objective.
- AV3. His main reasons for disagreeing with the proposals are that the guidance remains private sector-focused in important respects, without adequate adaptation to the public sector, as follows:
- (a) The decision-making and accountability needs of primary users are not adequately incorporated, particularly in relation to the accountability cycle and the central role of the approved budget;
 - (b) The guidance does not sufficiently address the more nuanced interaction of qualitative and quantitative considerations in the public sector, where qualitative considerations may be decisive more often; and
 - (c) The guidance does not sufficiently discuss public sector specific IPSAS Standards requirements and how materiality judgments should be applied in that context.

Primary users' accountability needs are not adequately incorporated

- AV4. The ED appropriately acknowledges that material information is that which could reasonably be expected to influence the discharge of accountability by the entity, or the decisions of primary users. However, the ED does not adequately discuss how accountability is discharged in the public sector in practice. In particular:
- (a) The ED acknowledges the primary user base is broader in the public sector and discusses the information primary users may need (paragraphs 19 to 22). However, this is discussed in isolation in the ED. Mr. van der Burgh considers that these differences should be addressed throughout the sections and examples in the ED;
 - (b) The approved budget is commonly the starting point of the accountability cycle and a key mechanism by which users assess whether resources were obtained and used as authorized. IPSAS 24, Presentation of Budget Information in Financial Statements addresses the presentation of a comparison of budget and actual information in financial statements and is therefore central to users' assessments. Mr. van der Burgh considers that the ED should more explicitly discuss how the budget, and reporting actual information against the budget, impacts the discharge of accountability by an entity and decisions made by primary users. He also considers that the ED should discuss how materiality judgments are made in the context of budget information presented in financial statements. This

discussion could, for example, include illustrative considerations for identifying potentially material budget variances, assessing materiality of explanations of variances, and avoiding obscuring material budget-related information through immaterial disclosures; and

- (c) While the ED includes public sector examples, the examples should frame user needs explicitly in the context of accountability and not only decision-making.

The interaction of qualitative and quantitative considerations requires further development for the public sector

AV5. Mr. van der Burgh agrees that materiality depends on both the nature and the magnitude of information. Nevertheless, in the public sector, qualitative considerations may be decisive more often because of the breadth of primary users, the key role of accountability, and the effects of legislation, regulation, and other authority. Matters such as compliance with legislation and the consequences of transactions and events may influence users' assessments even where the amounts involved are small. Mr. van der Burgh considers that the ED should provide additional guidance explaining how public sector entities might identify and apply qualitative factors, including circumstances in which qualitative considerations effectively reduce quantitative thresholds to very low levels. Illustrative examples could incorporate materiality judgments where qualitative considerations are determinative, such as the public interest associated with an item.

The ED should discuss public sector specific IPSAS Standards requirements and how to apply materiality in their context

AV6. Mr. van der Burgh considers that the ED would better achieve its objective if it gave greater prominence to making materiality judgments in relation to public sector- specific IPSAS Standards requirements. For example:

- (a) The discussion of loan covenants is less prevalent for many public sector entities. Public sector entities more commonly face other constraints and obligations that may be equally or more relevant to primary users' assessments, for example, funding commitments, conditions attached to grants and transfers, restrictions on the use of appropriations, and similar arrangements;
- (b) See paragraph AV4. on guidance that should be provided on making materiality judgments in relation to budget information in the financial statements;
- (c) Non-exchange transactions are prevalent in the public sector and there is unique guidance in IPSAS to account for them. Public sector specific guidance on making materiality judgments in the context of these transactions is needed; and
- (d) Public sector specific guidance on making materiality judgments in the context of these transactions, including illustrative examples, is needed.

Conclusion

AV9. For the reasons explained in this Alternative View, Mr. van der Burgh considers that further amendments are necessary to ensure the ED is appropriately tailored to the public sector and provides sufficient guidance to support application across jurisdictions, particularly those adopting IPSAS Standards for the first time.

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Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **IPSASB Tangible Natural Resources Held for Conservation – application of the PBE Policy Approach**

Date: 28 May 2026

Prepared by: Alex Stainer

Through: Gali Slyuzberg, Michelle Lombaard

Action Required

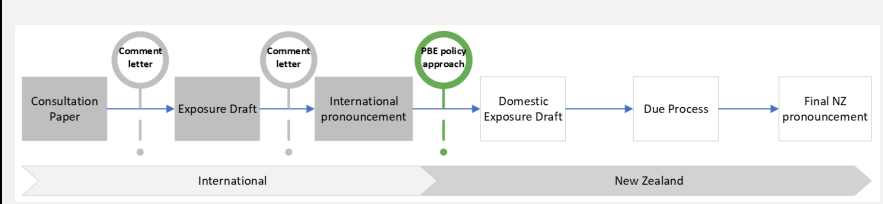
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COVER SHEET

Project overview

Project purpose	To apply the PBE Policy Approach to IPSAS 51 <i>Tangible Natural Resources Held for Conservation</i> and to decide whether to incorporate IPSAS 51 into PBE Standards, including any necessary modifications for the NZ PBE context.
Cost/benefit considerations	<p>Adopting IPSAS 51 without modification into PBE Standards would likely result in costs that outweigh the benefits of the Standard due to already established practice in NZ that sees tangible natural resources held for conservation recorded as items of PPE.</p> <p>However, with modifications, we expect IPSAS 51 could be developed into amendments to PBE Standards whereby the benefits outweigh the costs.</p> <p>These cost/benefit considerations are outlined in Table 1 of this memo.</p>
Project priority	<p>Low</p> <p>With the change of the scope of this Standard to tangible natural resources held for conservation, and with practice in NZ already adept at recording these assets where applicable, the priority of this Standard is low. It is a narrow scope, stand-alone standard that does not introduce any pervasive concepts that impact other IPSAS within our PBE suite.</p> <p>We have also not identified any reason why introducing the IPSAS 51 requirements and guidance are urgent to the PBE sector in NZ.</p>

Overview of agenda item

Project Status	 <p>The diagram illustrates the project status flow. It starts with a 'Consultation Paper' box, followed by a 'Comment letter' circle, then an 'Exposure Draft' box, another 'Comment letter' circle, and an 'International pronouncement' box. A green circle labeled 'PBE policy approach' is positioned above the transition to the 'Domestic Exposure Draft' box. The process continues through 'Due Process' and finally to 'Final NZ pronouncement'. A horizontal arrow at the bottom indicates the 'International' phase covers the first four steps, and the 'New Zealand' phase covers the remaining three steps.</p>
Board action required	<p>Low complexity</p> <p>APPLY the PBE Policy Approach to IPSAS 51 <i>Tangible Natural Resources Held for Conservation</i>.</p> <p>AGREE to commence a project to develop amendments to PBE Standards based parts of IPSAS 51 <i>Tangible Natural Resources Held for Conservation</i>, and to undertake this project concurrently with the PBE Measurement project.</p>

Purpose

1. In accordance with the [Policy Approach to Developing the Suite of PBE Standards \(PBE Policy Approach\)](#), the Board is required to assess whether, and when, to commence a project to incorporate parts of IPSAS 51 *Tangible Natural Resources Held for Conservation* into the PBE Standards issued by the XRB.
2. The purpose of this memo is to apply the PBE Policy Approach to IPSAS 51 and outline considerations relevant to its incorporation to PBE Standards.

Recommendations

3. We recommend that the Board:
 - (a) APPLY the PBE Policy Approach to IPSAS 51;
 - (b) AGREE NOT to commence a project to develop a new PBE Standard using IPSAS 51 as a starting point;
 - (c) AGREE to commence a project to develop amendments to PBE Standards using parts of IPSAS 51 as a starting point; and
 - (d) AGREE that this project should be undertaken concurrently with the PBE Measurement project.

Background

4. In March 2020, the IPSASB approved the Natural Resources project in response to the significance of natural resources in many jurisdictions, growing public concerns for sustainable management, and the lack of explicit accounting guidance in this area.
5. The project aimed to develop guidance on the recognition, measurement, presentation, and disclosure of tangible natural resources in public sector general purpose financial statements (GPFS).

6. In May 2022, the IPSASB issued the Consultation Paper, *Natural Resources* (CP) which discussed how the Conceptual Framework applies to natural resources and presented preliminary views, including those related to subsoil resources, water, and living resources.
7. Many respondents noted that natural resources would rarely meet the asset recognition criteria, due to uncertainty in relation to control and/or obtaining a reliable measurement. Respondents also suggested it may be more appropriate to report information on natural resources more broadly in general purpose financial reports (GPFRs), rather than in GPFS.
8. In response, the IPSASB concluded that recognition decisions/judgements should be considered on a case-by-case basis using the Conceptual Framework, and therefore decided to proceed with developing an Exposure Draft to provide guidance on accounting for natural resources in the context of the Conceptual Framework.
9. In October 2024, the IPSASB issued Exposure Draft 92 *Tangible Natural Resources* (ED 92) which proposed recognition, measurement, disclosure and presentation requirements for tangible natural resources outside the scope of other IPSAS Standards. The ED also included an alternative view that the Standard's scope should be limited to tangible natural resources held for conservation, rather than defining the scope as tangible natural resources that are not in the scope of other IPSAS, due to concerns that the residual scope approach may lead to inappropriate reporting.
10. The NZASB [submission](#) on ED 92 (consistent with earlier comments provided on the CP, and in framing this position, discussed with the PBE working group, and other NZ stakeholders through other forums) raised concerns including:
 - (a) Introducing a separate Standard for tangible natural resources is unnecessary, most tangible natural resources will not be accounted for due to not meeting the asset definition and/or recognition criteria, and other IPSAS Standards already provide adequate coverage for those natural resources that meet the asset definition and recognition criteria;
 - (b) Tangible natural resources held for conservation (i.e. conservation land) already meet the definition of property, plant and equipment (PPE), and are appropriately accounted for under the PPE standard – and the cost of 'splitting out' natural resources held for conservation from PPE (in determining which standard applies and for presentation purposes) would not be sufficiently justified by benefits;
 - (c) Guidance on accounting for natural resources should be incorporated into existing IPSAS Standards and/or separate staff guidance; and
 - (d) In order to be useful, disclosures should encompass the broader scope of natural resources that an entity is managing or conserving, rather than only natural resources that meet the definition of an asset – and such disclosures should be included in sustainability or service performance reporting, rather than GPFS;
11. Overall, respondents were generally supportive of the alternative view accompanying ED 92. Therefore, the IPSASB reframed the standard's scope to refer specifically to tangible natural resources held for conservation.
 (Note: The NZASB agreed with the concern in the alternative view that a 'residual scope' approach may lead to inappropriate accounting outcomes – but the alternative view still proposed a standalone standard, which the NZASB disagreed with).

12. Some respondents questioned the need for a standalone standard on natural resources, similarly to the NZASB. However, the IPSASB noted that no new concerns were raised that had not already been considered, and that a standalone standard would be beneficial for public interest reasons, and to highlight the importance of natural resources in the public sector. Therefore, the IPSASB decided to continue with the development of the Standard.
13. This project has resulted in the issuance of the final pronouncement, IPSAS 51 *Tangible Natural Resources Held for Conservation*, in February 2026. It is now appropriate for the Board to consider its incorporation into the PBE Standards using the PBE Policy Approach.

Main proposals of IPSAS 51

14. IPSAS 51 represents a significant narrowing in the project’s focus, from the original project objective of providing accounting guidance for all natural resources to a targeted focus on tangible natural resources held for conservation.
15. This change in scope has resulted in several developments to ensure the workability of this Standard, particularly in relation to scope, definition, and unit of account.
16. The main proposals in IPSAS 51, along with commentary on their development and implications are summarised below.

IPSAS 51	Key features	Observations
Scope	<p>The ED’s ‘residual scope’ approach, which included all tangible natural resources that are not in the scope of other IPSAS, was replaced with the limited scope of tangible natural resources held for conservation, in line with the Alternative View.</p> <p>The Standard applies only to natural resources held for conservation that meet the definition and recognition criteria of an asset and are subject to a detailed management plan. Entities are not required to identify every possible natural resource that could theoretically be conserved.</p> <p>Where tangible natural resources meet the definition of an asset but cannot be recognised due to the inability to measure cost or deemed cost reliably, disclosure requirements apply.</p>	<p>Despite the clarification of the scope, our view remains that a standalone standard is unnecessary and that natural resources held for conservation meets the definition of PPE¹.</p> <p>We note that the scope was narrowed due to:</p> <ul style="list-style-type: none"> • widespread disagreement with the ED’s proposed scope; • the absence of examples of other natural resources that would appropriately fall within scope; and • concerns that a residual scope approach could result in inappropriate reporting.
Definition (and related scope considerations)	<p>A tangible natural resource held for conservation is defined as:</p> <p><i>“a naturally occurring tangible asset that is managed to prevent its degradation.”</i></p>	<p>In our view, the definition alone may not fully capture the concept of conservation, and it may not clearly distinguish natural resources primarily held for conservation from natural</p>

¹ [Submission to IPSASB ED 92 Tangible Natural Resources – Appendix 1, SMC 1, paragraph 3](#)

IPSAS 51	Key features	Observations
	<p>In the authoritative Application Guidance, paragraph AG4 specifies that to be in the scope of IPSAS 51, a tangible asset must be <i>naturally occurring</i>, and the <i>primary purpose</i> for holding the asset must be <i>conservation</i> (see the definition above).</p> <p>IPSAS 51 distinguishes between holding an asset for <i>conservation</i> vs holding an asset for <i>use</i> in the provision of <i>services</i> (e.g. para AG8 and para 4(g) of IPSAS 51).</p>	<p>resources held for other purposes, as arguably many resources are managed to prevent degradation, whether they are held for conservation or not.</p> <p>Application Guidance (paragraph AG 4) clarifies that for a tangible asset that is naturally occurring, the <i>primary purpose</i> for which the asset is held determines the applicable IPSAS. If that primary purpose is conservation, then the asset is in the scope of IPSAS 51.</p> <p>Paragraph AG 3 acknowledges that a resource may be held for multiple benefits (ecological, societal, cultural, public enjoyment), but it is not always clear whether all of these can constitute a primary objective of “conservation” based on IPSAS 51.</p> <p>The reference to naturally occurring heritage assets has been removed from the PPE Standard (IPSAS 45), and such assets are expected to be accounted for under IPSAS 51 where they are held primarily for conservation.</p> <p>In our view, conservation is a service to the public, and naturally occurring assets held for conservation are used in the provision of this service – which is why in our view they meet the definition of PPE. Determining whether land is held primarily for conservation as distinct from (other) services would require significant judgements, particularly where conservation activities involve providing (controlled) access to the public, or where land has mixed uses (see below).</p>

IPSAS 51	Key features	Observations
Unit of account	<p>IPSAS 51 outlines that a natural resource could consist of multiple units of account, each falling within the scope of different IPSAS Standards.</p> <p>Application Guidance paragraphs AG15 and AG16 discuss factors that can indicate that separate natural resources with different physical characteristics can be grouped into a single unit of account – e.g. when the resources are managed together, are unlikely to provide service potential separately and/or can be measured together but cannot be measured separately.</p>	<p>Significant judgement may be required to assess the primary objective of holding different parts of a resource.</p> <p>Practical difficulties may arise where a resource has multiple conservation related objectives.</p> <p>Land, in particular, may be challenging to delineate. For example, land held primarily for conservation but also generating income through walking tracks or campgrounds may require components to be accounted for under PPE rather than IPSAS 51.</p>
Recognition and measurement	<p>Initial measurement is at cost for tangible natural resources acquired in exchange transactions, or at deemed cost for non-exchange transactions. As assets in the scope of IPSAS 51 are held for operational capacity, 'deemed cost' is current operational value (COV).</p> <p>Entities may subsequently apply either the cost model or current value model. As these assets are held for operational capacity, COV is the relevant valuation basis when the revaluation model is chosen.</p> <p>IPSAS 51 includes a rebuttable presumption that tangible natural resources generally have an indefinite useful life and are not depreciated.</p> <p>Impairment must be considered annually using IPSAS 21 Impairment of Non-Cash-Generating Assets.</p>	<p>Effectively the same requirements as the PPE Standard, i.e. IPSAS 45 <i>Property, Plant and Equipment</i> (which is not yet incorporated into PBE Standards in NZ – but other than the fact that PBE IPSAS 17 refers to fair value for deemed cost and revaluation purposes and does not contain COV requirements, the recognition and measurement requirements are generally similar to PBE IPSAS 17 too).</p>
Subsequent expenditure	<p>Expenditure is capitalised only where it <i>incrementally increases</i> the service potential of the resource.</p> <p>Costs of day-to-day maintenance that do not result in incremental increase in service potential and are expensed as incurred.</p>	<p>During development, questions were raised about whether certain activities (e.g., breeding programmes) could be interpreted as subsequent expenditure that is capitalised.</p> <p>The Standard clarifies that only expenditure clearly enhancing</p>

IPSAS 51	Key features	Observations
		service potential can be capitalised.
Derecognition	<p>A tangible natural resource is derecognised when it is disposed of, control is lost, or it no longer has service potential.</p> <p>Any resulting gain or loss is recognised in surplus or deficit.</p>	Effectively the same requirements as the PPE Standard.
Reclassification	<p>IPSAS 51 contain reclassification requirements for situations where there is a change in the <i>primary purpose</i> for holding a tangible natural resource. If a tangible natural resource is no longer held for conservation, it is reclassified out of IPSAS 51 into the scope of another IPSAS. Similarly, if a tangible natural resource is accounted for in the scope of another IPSAS, but the primary purpose for holding the asset changes to conservation, the asset is reclassified as a tangible asset held for conservation in the scope of IPSAS 51. The asset is reclassified together with any revaluation surplus, if applicable and identifiable. The carrying amount of the asset immediately before reclassification becomes the deemed cost under the ‘receiving’ Standard.</p>	The finalised reclassification requirements in IPSAS 51 are clearer and more complete as compared to the ED, as they cover reclassifications both in and out of IPSAS 51.
Presentation and Disclosure	<p>Tangible natural resources held for conservation must be presented as a separate line item in the Statement of Financial Position.</p> <p>The Standard introduces comprehensive disclosures designed to enable users to understand the nature, risks, and financial impacts of these resources. For recognised natural resources held for conservation, disclosure requirements include information about the resources’ nature, location and quantity, the resources’ significance to the achievement of the entity’s objectives, judgements regarding recognition and the unit of account, and the entity’s stewardship responsibilities, Disclosures on additions, disposals and</p>	Disclosures about the nature and risks of natural resources being held for conservation and the entity’s stewardship responsibility over them are likely to be more useful if they cover the broader scope of natural resources that an entity manages, conserves or has custodial responsibilities over – rather than only those resources that meet the definition of an asset. As such, we consider that such disclosures would be more usefully provided in context with service performance and sustainability reporting.

IPSAS 51	Key features	Observations
	<p>revaluations (similar to PPE) are also required.</p> <p>Entities must disclose information about unrecognised tangible natural resources that meet the asset definition but cannot be measured reliably (including some but not all of the disclosures mentioned above).</p> <p>Disclosure exemptions apply where providing information could endanger rare or endangered resources. These terms are not specifically defined and require preparer judgement.</p>	
Transition	<p>Entities may apply IPSAS 51 using either full retrospective application or a modified retrospective approach.</p> <p>For resources reclassified from PPE, any existing revaluation surplus is retained and reclassified to IPSAS 51 on transition</p>	<p>Transfer of revaluation surplus ensures no fiscal impact upon transition to accounting for previously held PPE as a tangible natural resource held for conservation.</p>

Core issue remains

Separate Standard

17. We have been consistent throughout this project in advising the IPSASB that many natural resources are unlikely to meet the asset recognition criteria due to uncertainties regarding control and reliable measurement, and where natural resources do meet the recognition criteria, they can be adequately accounted for within other IPSAS, and the cost arising from the proposed standalone standard are unlikely to be justified by benefits. On this basis, we have not supported progressing the project in its current form (and did not provide detailed comments on specific requirements in the ED).
18. Our primary ongoing concern is the IPSASB's decision to place requirements for tangible natural resources held for conservation into a separate standalone Standard, rather than incorporating the guidance within the newly developed IPSAS 45 *Property, Plant, and Equipment*.
19. There are several reasons for our view:
 - (a) It is unlikely that the new Standard will lead to significant new asset recognition in practice. Many natural resources have historically remained unrecognised as reliable measurement is difficult or control is uncertain, rather than due to a lack of guidance. This type of Standard gives the appearance of broadening the recognition framework, when in reality, it will not materially change recognition outcomes.
 - (b) We consider that natural resources held for conservation fall within the scope of the PPE Standard – and splitting out natural resources from PPE would require significant judgements, and the resulting costs are unlikely to be justified by benefits.

20. The definition of PPE in PBE IPSAS 17 (and IPSAS 45) refers to assets that “are held for use in the production or supply of goods or services”. In New Zealand, natural resources held for conservation are recognised as PPE (where asset recognition criteria are met), as conservation is understood to be a form of service delivery. However, the IPSASB have taken the view that natural resources held for conservation are ‘not used’ and ‘do not provide a service’, which we believe does not necessarily reflect the way conservation operates in practice in New Zealand. That is, conservation in New Zealand includes many elements beyond the IPSASB definition of conservation (which focuses on preventing degradation), such as:
- (a) active regeneration,
 - (b) biodiversity improvement, and
 - (c) controlled public access for enjoyment and education.
21. Many of the requirements of the new Standard with respect to recognition, measurement, derecognition etc. are substantively aligned with the PPE Standard. This further supports the long-standing New Zealand practice of accounting for conservation assets as PPE where appropriate.
22. The view reflected in IPSAS 51 that conservation is distinct from a service, and the requirement to account for and present tangible natural resources held for conservation separately from PPE, will likely introduce practical challenges for New Zealand PBEs. We expect entities will need to determine whether a natural resource or its components fall within IPSAS 51 or PPE, which could require significant judgement, despite minimal differences in the resulting accounting treatment. For natural resources with multiple objectives, the unit of account requirements could lead to an arbitrary separation of a natural resource into separate components to be accounted for under different accounting standards – likely to add complexity with limited corresponding benefit.

Where content of the Standard may provide value

23. Notwithstanding our concerns about issuing a separate Standard, we have considered whether IPSAS 51 contains elements that may provide value to reporting in New Zealand.
24. While we do not expect that IPSAS 51 will significantly shift how natural resources have been recognised and measured, there are several components of IPSAS 51 that could offer clarity and enhance future reporting practice, including:
- (a) application guidance and examples on how the asset recognition criteria apply for natural resources;
 - (b) application guidance and examples on how the existing PPE recognition and measurement principles could be applied for natural resources; and
 - (c) disclosures that more clearly communicate stewardship over the resource and that can more clearly link with wider reporting in GPFR.
25. As the potentially beneficial components of IPSAS 51 largely relate to guidance on the application of existing principles, we consider that it would be more effective to incorporate them into PBE Standards through enhanced guidance within the PPE Standard, rather than a separate Standard.
26. The NZASB agreed in December 2025 to commence the development of PBE Standards using the IPSASB pronouncements issued as part of the Measurement as a starting point – including

IPSAS 45 *Property, Plant and Equipment*. We consider that integrating the potentially beneficial components of IPSAS 51 into the development of a PBE Standard based on IPSAS 45 would:

- (a) avoid introducing classification challenges between IPSAS 51 and PPE, particularly for multi-objective resources, and avoid the related costs for preparers that would arise from the classification challenges;
- (b) bring into PBE Standards the helpful explanations of control and measurement limitations from IPSAS 51, without implying that new recognition outcomes are expected; and
- (c) support disclosure requirements that link more naturally to GPFR and service-performance reporting, where stewardship narratives are more commonly presented (noting that modifications to and/or relocation of the disclosure requirements in IPSAS 51 may be needed to achieve this link).

Application of the PBE Policy Approach

27. We are now asking the Board to apply the PBE Policy Approach and decide whether to initiate a project to incorporate IPSAS 51 into the PBE Standards.
28. As IPSAS 51 is a new IPSAS, as per the PBE Policy Approach there is a rebuttable presumption that IPSAS 51 **should be adopted into PBE Standards**.
29. Under the PBE Policy Approach, the decision on whether to amend PBE Standards is governed by the ‘development principle’, which states that “the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole)”. Thus, “any developments should ensure that the needs of users are better met than they were prior to the development”.
30. Table 1 on the next page considers the factors in the development principle, as they apply to IPSAS 51.
31. Based on the considerations in Table 1, we recommend that the NZASB agrees:
 - (a) not to commence a project to develop a new PBE Standard using IPSAS 51 as a starting point; but
 - (b) to commence a project to develop amendments to PBE Standards, using parts of IPSAS 51 as a starting point.
32. In terms of timing: We recommend running this project concurrently with the NZASB’s project on PBE Measurement, which will include the development of a PBE Standard based on IPSAS 45 *Property, Plant and Equipment*. We recommend this timing for the following reasons.
 - (a) In our view, tangible natural resources held for conservation that meet the asset recognition criteria are a subset of PPE. While the IPSASB does not share this view, the recognition and measurement requirements in IPSAS 51 are closely aligned with those in IPSAS 45 – indicating that there is a close link between tangible natural resources held for conservation and PPE. As such, it seems beneficial and efficient to consider requirements for tangible natural resources held for conservation concurrently with the PBE Measurement project that includes IPSAS 45.
 - (b) We acknowledge that the commencement of the PBE Measurement project is currently planned for 2027, but we do not consider that there is urgency to include the components of IPSAS 51 that we identified as potentially beneficial into PBE IPSAS 17 at this time.

33. Please note: Table 1 does not take into account the fact that IPSAS 51 includes COV requirements, whereas PBE Standards do not. The introduction of COV requirements will be addressed as part of the wider Measurement project (IPSAS 46 and related pronouncements, which also includes IPSAS 45 PPE that incorporates COV requirements too).

Policy Approach to Development of Suite of PBE Standards

Table 1: Factors in the Development Principle

Factors in the Development Principle	Comment
<p>Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made.</p>	<p>In New Zealand, natural resources held for conservation are already recognised and accounted for as PPE where asset recognition criteria are met.</p> <p>IPSAS 51 does not introduce new recognition or measurement requirements that would materially change current accounting outcomes.</p> <p>The main change would be separate presentation on the face of the balance sheet and some additional disclosures specifically tied to natural resources and service objectives.</p> <p>While the Standard provides more certainty on accounting for conservation resources, it would not lead to higher quality reporting compared with the status quo. The costs of separating natural resources from PPE for the purpose of determining which standard applies and for separate presentation outweigh the incremental benefits (see our comments above relating to the challenges of distinguishing conservation from other services, and the challenges of determining how to classify natural resources with mixed use).</p> <p>With modification, specifically, by incorporating only the useful elements of IPSAS 51 as guidance, higher quality reporting could be achieved.</p>
<p>Whether the benefits of a potential development will outweigh the costs, considering as a minimum:</p>	<p><u>Relevance to the PBE sector as a whole (and to the not-for-profit or public sector sub-sectors)</u></p>
<p>(i) relevance to the PBE sector as a whole: for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;</p>	<p>The proposed development is only relevant to those entities that hold tangible natural resources held for conservation that meet the definition and recognition criteria of an asset (or just the definition criteria for certain disclosures).</p> <p>We expect this Standard will impact those entities that specifically hold land for conservation including nature reserves, and will include entities within both the public sector and not-for-profit sectors.</p>
<p>(ii) relevance to the not-for-profit or public sector sub-sectors: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;</p>	<p><u>Coherence</u></p> <p>Due to the limited scope of IPSAS 51, we do not expect that the introduction of the Standard or of any relevant components into PBE Standards to effect the coherence of the PBE suite.</p>
<p>(iii) coherence: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);</p>	<p><u>Impact on mixed groups</u></p> <p>At this stage, we do not expect substantive issues in mixed groups whether the Standard was introduced or the relevant components brought into PBE Standards.</p>
<p>(iv) the impact on mixed groups.</p>	<p><u>General comment</u></p> <p>In general, we note the following:</p> <ul style="list-style-type: none"> - New Zealand practice is well established: conservation estate land is recognised and accounted for as PPE, typically measured using the revaluation model. NZ is one of the few jurisdictions recognising such estates on balance sheet.

Factors in the Development Principle	Comment
	<p>- Recognition and measurement requirements in IPSAS 51 closely align with PPE, and IPSAS 51 is not expected to result in additional asset recognition due to persistent challenges around control and reliable measurement. The decision on whether and how to introduce COV into PBE Standards (as part of the PBE Measurement project) may impact future revaluations.</p> <p>- IPSAS 51 introduces separate presentation on the balance sheet. While not strictly necessary (PPE is already disaggregated in notes), this could improve transparency in some cases. However, as noted in the comment letter, we have concerns that the costs of separate presentation requirements may not be justified by benefits.</p> <p>- The separate presentation requirement appears more aligned with earlier intentions of the IPSASB's project (i.e., recognition of economically significant natural resources such as subsoil assets) rather than the narrowed conservation scope.</p> <p>- New disclosures apply only to natural resources that meet the asset definition (recognised or unrecognised), meaning they will not provide a complete picture of all natural resources under stewardship. Alignment with broader GPFR and service performance reporting should be considered.</p> <p>- Additional guidance on natural resources may be useful within the PBE suite, particularly if conservation activities or repurposing of natural resources become more prevalent over time.</p> <p><u>Staff conclusion</u></p> <ul style="list-style-type: none"> We believe that incorporating elements of IPSAS 51 into wider guidance within the PBE Standard developed based on IPSAS 45 would lead to higher quality financial reporting than if the development was not made. We also consider that this type of modification means the benefits outweigh the costs whilst maintaining coherence in the suite of PBE Standards.

Rebutting the presumption of the PBE Policy Approach

34. In considering whether to rebut the presumption, it should be noted that according to the PBE Policy Approach, rebutting the presumption is expected to occur only in exceptional circumstances—such as when the Board has significant concerns that, in the New Zealand context:
- The adoption of a new or amended IPSAS would not be appropriate or relevant (based on the development principle); and
 - The costs of adoption would outweigh the benefits.
35. If the NZASB decides to rebut the presumption, it also must report to the XRB Board:
- Its decision and the rationale behind it; and
 - Any planned actions regarding the new or amended IPSAS, such as whether a domestic standard will be developed and whether elements of the IPSAS will be incorporated into that domestic standard.

36. As noted above:
- (a) In New Zealand, tangible natural resources held for conservation that meet the recognition criteria of an asset are already accounted for under the PPE standard, and in our view this is appropriate; and
 - (b) We have had an ongoing concern that a standalone standard on tangible natural resources held for conservation, requiring entities to determine whether a natural resource is in the scope of this standard or the PPE standard for accounting purposes and to present resources in the scope of the standard separately from PPE, would give rise to costs that are unlikely to be justified by benefits.
37. For these reasons, we recommend rebutting the presumption in the PBE Policy Approach with respect to the development of a ‘principal’ PBE Standard based on IPSAS 51, because we consider that paragraph 25(b) of the PBE Policy Approach applies in this case, i.e. “the costs of adoption would outweigh the benefits”.
38. However: As noted above, there are parts of IPSAS 51 that we consider could be useful in terms of supporting consistent and high-quality reporting by PBEs, without giving rise to the same extent of costs that we would expect from a standalone PBE Standard based on IPSAS 51 in full. We consider that the benefits of incorporating these parts of IPSAS 51 into PBE Standards would justify the potential costs, particularly considering that the parts that we consider beneficial relate mostly to application guidance of existing asset recognition and PPE measurement principles (as well as some disclosures).
39. Therefore, we recommend incorporating the parts of IPSAS 51 that we consider relevant and beneficial into a forthcoming proposed standard on PPE based on IPSAS 45, to be developed as part of the PBE Measurement project.
40. Consistent with the PBE Policy Approach, if the Board agrees with our recommendations, we will report to the XRB Board on:
- (a) rebutting the presumption to develop a principal PBE Standard based on IPSAS 51; and
 - (b) progressing amendments to PBE Standards drawing on IPSAS 51 as part of developing a PBE Standard based on IPSAS 45 within the PBE Measurement project.

Questions for the Board

- Q1. Does the Board AGREE NOT to commence a project to develop a new principal PBE Standard using IPSAS 51 as the starting point?
- Q2. Does the Board AGREE to commence a project to develop amendments to PBE Standard, using parts of IPSAS 51 as the starting point?
- Q3. Does the Board agree with the proposed direction regarding potential areas for NZ-specific amendments and to incorporate relevant guidance from IPSAS 51 within the development of IPSAS 45 (PPE)?

Next steps

41. If the Board agrees to commence a project to develop amendments to PBE Standard based on parts of IPSAS 51, concurrently with the PBE Measurement project, we will prepare a project

plan for consideration at a future meeting and move forward with reporting the rebuttal of the presumption to the XRB Board at its next meeting.

42. If the Board also agrees with our initial assessment that this work is best undertaken alongside the development of IPSAS 45, we will incorporate the IPSAS 51 project into the wider measurement project when developing the PBE Standard for IPSAS 45 (Property, Plant and Equipment).
43. Accordingly, a consolidated project plan covering both pieces of work will be developed for a future meeting.

Attachments

- IPSAS 51 *Tangible Natural Resources Held for Conservation*

Final Pronouncement
January 2026

IPSAS®

International Public Sector Accounting Standard®

*IPSAS 51, Tangible Natural
Resources Held for
Conservation*

IPSASB

International Public
Sector Accounting
Standards Board®



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IPSAS 51, *TANGIBLE NATURAL RESOURCES HELD FOR CONSERVATION*

CONTENTS

	Paragraph
Objective.....	1–2
Scope.....	3–7
Classification as Tangible Natural Resources Held for Conservation	6–7
Definitions	8–9
Recognition.....	10–16
Subsequent Expenditures	14–15
Subsequent Expenditures on Unrecognized Tangible Natural Resources Held for Conservation.....	16
Measurement.....	17–42
Initial Measurement.....	17–23
Subsequent Measurement.....	24–30
Depreciation	31–40
Impairment	41–42
Derecognition.....	43–46
Reclassification.....	47–50
Presentation.....	51–71
Display.....	51
Disclosure.....	52–71
Effective Date and Transition	72–78
Effective Date.....	72–73
Transition.....	74–78
Appendix A: Application Guidance	
Appendix B: Amendments to Other IPSAS Standards	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	
Comparison with GFSM 2014	

Objective

1. **The objective of this Standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources held for conservation.**
2. To meet the objective in paragraph 1, this Standard:
 - (a) Sets out the recognition, measurement, and presentation requirements for tangible natural resources held for conservation; and
 - (b) Requires an entity to provide disclosures in their financial statements that enable users to evaluate:
 - (i) The nature of, and risks associated with, tangible natural resources held for conservation; and
 - (ii) The effects of tangible natural resources held for conservation on the entity's financial position, financial performance, and cash flows.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for tangible natural resources held for conservation as defined in this Standard.**
4. **This Standard does not apply to:**
 - (a) **Assets consisting of materials or supplies to be consumed in the production process or in the rendering of services, held for distribution in the ordinary course of operations or in the process of production for sale or distribution, which are within the scope of IPSAS 12, *Inventories*;**
 - (b) **Assets held to earn rentals or capital appreciation, or both, which are within the scope of IPSAS 16, *Investment Property*;**
 - (c) **Assets that are biological assets whose biological transformation is managed for sale, distribution, or conversion into agricultural produce, which are within the scope of IPSAS 27, *Agriculture*;**
 - (d) **Service concession assets within the scope of IPSAS 32, *Service Concession Arrangements: Grantor*;**
 - (e) **Leases as defined in IPSAS 43, *Leases*;**
 - (f) **Assets classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*;**
 - (g) **Assets used in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period, which are within the scope of IPSAS 45, *Property, Plant, and Equipment*; and**
 - (h) **Exploration and evaluation assets within the scope of IPSAS 50, *Exploration for and Evaluation of Mineral Resources*.**
5. **This Standard also does not apply to obligations relating to tangible natural resources held for conservation within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Classification as Tangible Natural Resources Held for Conservation

6. The assessment of the unit of account for a resource may impact whether an item is within the scope of this Standard, as some resources could consist of multiple units of account. Each unit of account potentially could

be accounted for separately, and its classification is considered individually based on an entity's primary intended reason for holding that individual unit of account. Only units of account which meet the definition of a tangible natural resource held for conservation in paragraph 8 are classified as such and are within the scope of this IPSAS Standard. Other units of account that are held primarily for other purposes, such as those listed in paragraph 4, are accounted for based on the guidance in other IPSAS Standards.

7. Paragraphs AG2 and AG14–AG18 provide additional guidance on the unit of account, and paragraphs AG3–AG4 provide additional guidance on the scope of this Standard.

Definitions

8. The following terms are used in this Standard with the meanings specified:

For the purposes of this Standard, a tangible natural resource held for conservation is a naturally occurring tangible asset that is managed to prevent its degradation.

A class of tangible natural resources held for conservation means a grouping of tangible natural resources held for conservation that are of a similar nature and is shown as a single item for the purpose of disclosure in the financial statements.

Terms defined in other IPSAS Standards are used in this Standard with the same meaning as in those Standards and are reproduced in the *Glossary of Defined Terms* published separately.

9. Paragraphs AG5–AG13 provide additional guidance on the definitions in this Standard.

Recognition

10. **A tangible natural resource held for conservation shall be recognized if, and only if:**

- (a) **It is probable that service potential associated with the resource will flow to the entity;**
- (b) **The entity controls the tangible natural resource held for conservation as a result of past events; and**
- (c) **The tangible natural resource held for conservation can be measured reliably.**

11. An asset can be reliably measured if the variability in the range of reasonable cost or deemed cost measurements is not significant for that asset, or the probabilities of the various estimates within the range can be reasonably assessed.

12. If an entity controls a tangible natural resource held for conservation which meets the definition of an asset, but does not meet the recognition criterion in paragraph 10(c), the information required by paragraph 68 shall be disclosed in the notes to the financial statements. If subsequently, the tangible natural resource held for conservation becomes reliably measurable, the entity shall, from that date, recognize the tangible natural resource held for conservation in accordance with paragraph 10 and apply the measurement principles in this Standard. Paragraphs AG19–AG24 provide additional guidance on the recognition of tangible natural resources held for conservation.

13. The unit of account (see paragraph 6) for a tangible natural resource held for conservation should also be considered when applying the recognition criteria and principles for initial and subsequent measurement. Depending on the characteristics and risks associated with the item(s), and considering the objectives of financial reporting, it may be appropriate to (a) disaggregate significant items into separate units of account, then apply the recognition criteria and measurement principles to each individual unit, or (b) aggregate individual items into one unit of account, then apply the recognition criteria and measurement principles to the aggregate value. Paragraphs AG2 and AG14–AG18 provide additional guidance on determination of the unit of account.

Subsequent Expenditures

14. An entity recognizes subsequent expenditures on tangible natural resources held for conservation in accordance with the recognition principle in paragraph 10. Under this principle, the costs of day-to-day maintenance which do not result in incremental service potential and other activities such as research (as defined in IPSAS 31, *Intangible Assets*) regarding conservation are recognized in surplus or deficit as incurred. The costs of day-to-day maintenance may primarily consist of the costs of labor and consumables and could include, for example, when rangers are employed to protect a tangible natural resource held for conservation or when some form of chemical treatment is applied.
15. In contrast, an entity may, for example, acquire additional parcels of land to expand an existing conservation area. Under the recognition principle in paragraph 10, the entity would recognize the acquisition cost of the additional land as part of the existing conservation area, as these costs result in incremental service potential that would likely flow to the entity.

Subsequent Expenditures on Unrecognized Tangible Natural Resources Held for Conservation

16. The recognition of a subsequent expenditure as an asset is unaffected by whether or not the underlying tangible natural resource held for conservation was initially recognized. If the subsequent expenditure relates to a tangible natural resource held for conservation that was not initially recognized because its cost or deemed cost could not be measured reliably, it should nonetheless be reviewed in light of paragraph 10 to determine whether or not it should be recognized as an asset.

Measurement

Initial Measurement

17. **Where a tangible natural resource held for conservation is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its deemed cost (current value). The current value of a tangible natural resource held for conservation is measured at current operational value because these assets are held for their operational capacity. An entity shall apply IPSAS 46, *Measurement*, when determining current operational value.**
18. For the purpose of this Standard, the initial measurement of a tangible natural resource held for conservation at its current operational value in accordance with the requirement of paragraph 17, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraphs 26–30 and the supporting Application Guidance only apply where an entity elects to revalue a tangible natural resource held for conservation in subsequent reporting periods.
19. **A tangible natural resource held for conservation acquired through an exchange transaction shall be measured at its cost.**

Elements of Cost

20. The cost of a tangible natural resource held for conservation acquired in an exchange transaction comprises:
 - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) Any costs directly attributable to bringing the asset to the location and condition to be conserved as intended by management.

21. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 39, *Employee Benefits*) arising directly from the acquisition, development (including rehabilitation) of the tangible natural resource held for conservation;
 - (b) Costs of site preparation;
 - (c) Initial delivery and handling costs; and
 - (d) Professional fees.
22. Recognition of costs in the carrying amount of a tangible natural resource held for conservation ceases when the item is in the location and condition necessary for it to be capable of being conserved in the manner intended by management.
23. Paragraphs AG30–AG33 provide additional guidance on the measurement of deferred consideration and on the acquisition of a tangible natural resource held for conservation in exchange for non-monetary assets.

Subsequent Measurement

24. **After initial recognition, an entity shall apply the measurement requirements from IPSAS 46 by choosing either the historical cost model or the current value model as its accounting policy. An entity shall apply the chosen policy to an entire class of tangible natural resources held for conservation. If, after initial measurement, the current value of a tangible natural resource held for conservation cannot be reliably measured on a continuing basis, an entity shall apply the historical cost model to that resource. If the current value subsequently becomes reliably measurable and the entity chooses to apply the current value model, the change in accounting policy shall be dealt with as a revaluation in accordance with this Standard.**

Historical Cost Model

25. **Where an entity subsequently chooses to measure a tangible natural resource held for conservation, which was initially measured at its cost or deemed cost, at its historical cost, the resource shall be carried at that cost or deemed cost less any accumulated depreciation (if applicable) and any accumulated impairment losses.**

Current Value Model

26. **Where an entity chooses to measure a tangible natural resource held for conservation after initial recognition using the current value model, and its current value can be measured reliably, it shall be carried at a revalued amount, being its current operational value at the date of revaluation, less any subsequent accumulated depreciation (if applicable) and subsequent accumulated impairment losses.**
27. **Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current operational value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 28–30.**
28. **If the carrying amount of a class of tangible natural resources held for conservation is increased as a result of revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of tangible natural resources held for conservation previously recognized in surplus or deficit.**

29. **If the carrying amount of a class of tangible natural resources held for conservation is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of tangible natural resources held for conservation.**
30. **Revaluation increases and decreases relating to individual assets within a class of tangible natural resources held for conservation must be offset against one another within that class but must not be offset in respect of assets in different classes of tangible natural resources held for conservation.**

Depreciation

31. **An entity shall assess whether the useful life of a tangible natural resource held for conservation is finite or indefinite, and if finite, the length of that useful life. There is a rebuttable presumption that tangible natural resources held for conservation have indefinite useful lives, as these resources are typically not used or consumed like tangible assets within the scope of other IPSAS Standards.**
32. A tangible natural resource held for conservation with a finite useful life is depreciated, while a tangible natural resource held for conservation with an indefinite useful life is not depreciated. Paragraphs AG36–AG39 provide additional guidance on the assessment of whether a tangible natural resource held for conservation has an indefinite or finite useful life.

Assets with Indefinite Useful Lives

33. The term “indefinite” does not mean “infinite.” The useful life of tangible natural resources held for conservation should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life. Projections of those factors and the estimated useful life should be realistic rather than optimistic or pessimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic or pessimistic projections of those factors. For example, the conclusion that the useful life of a tangible natural resource held for conservation is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current condition.

Assets with Finite Useful Lives

34. **A tangible natural resource held for conservation shall be regarded as having a finite useful life when, based on an analysis of all the relevant factors, there is clearly a foreseeable limit to the period over which the asset is expected to provide service potential to the entity.**
35. The useful life of a tangible natural resource held for conservation may be very long or even indefinite. Uncertainty about an asset’s useful life when it is very long does not justify choosing a life that is unrealistically short.
36. **The depreciation charge for each period shall be recognized in surplus or deficit.**
37. **The depreciable amount of a tangible natural resource held for conservation shall be allocated on a systematic basis over its useful life.**
38. **The residual value, if appropriate, and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
39. **The depreciation method shall reflect the pattern in which the asset is expected to provide service potential to the entity.**

40. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date, and if there has been a significant change in the pattern in which the asset is expected to provide service potential to the entity, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with IPSAS 3.**

Impairment

41. **To determine whether a tangible natural resource held for conservation is impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets*. IPSAS 21 explains how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.**
42. An entity is required to review tangible natural resources held for conservation with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21.

Derecognition

43. **The carrying amount of a tangible natural resource held for conservation, or a part thereof, shall be derecognized:**
- (a) **On disposal;**
 - (b) **When the entity ceases to control the resource; or**
 - (c) **When no service potential is expected from the resource.**
44. **The gain or loss arising from the derecognition of a tangible natural resource held for conservation shall be included in surplus or deficit when the item is derecognized.**
45. **The gain or loss arising from the derecognition of a tangible natural resource held for conservation shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
46. The consideration receivable on disposal of tangible natural resources held for conservation is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 47, *Revenue*, reflecting the effective yield on the receivable.

Reclassification

47. If a tangible natural resource, or a specific part of that asset, is no longer primarily held for conservation, that asset or its specific part shall be reclassified based on its new primary intended use. Similarly, if the primary reason for holding a tangible natural resource within the scope of another IPSAS Standard has been changed to conservation, that asset shall be reclassified as a tangible natural resource held for conservation within the scope of this Standard.
48. Up to the date of reclassification, an entity continues to account for the asset using the IPSAS Standard that was applicable before the change in classification and considers whether the change is an indication of impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.
49. Upon a reclassification of an asset or its specific part (along with its revaluation surplus if applicable and identifiable), the net carrying amount of the asset or its specific part immediately before reclassification shall be its cost for subsequent accounting (including subsequent measurement and if applicable, derecognition) in accordance with the IPSAS Standard applicable to the reclassified asset.

50. An entity shall reclassify a tangible natural resource held for conservation or a part of that resource as an asset (or disposal group) held for sale within the scope of IPSAS 44 if it meets the classification criteria specified in paragraphs 11–19 of IPSAS 44.

Presentation

Display

51. **Consistent with the requirements in paragraph 88 of IPSAS 1, *Presentation of Financial Statements*, an entity shall display tangible natural resources held for conservation as a separate line item in the statement of financial position.**

Disclosure

52. **The objective of the disclosure requirements is for the entity to disclose sufficient information to enable users of the financial statements to evaluate:**
- (a) **The nature of, and risks associated with, tangible natural resources held for conservation within the scope of this Standard; and**
 - (b) **The effects of tangible natural resources held for conservation on the entity's financial position, financial performance, and cash flows.**
53. Information regarding tangible natural resources held for conservation which meet the definition of an asset must be disclosed in the financial statements, even when the asset is not recognized. (See paragraphs 68–71)

Disclosures for Recognized Tangible Natural Resources Held for Conservation

54. **For recognized tangible natural resources held for conservation, an entity shall disclose the following:**
- (a) **A narrative description of the recognized tangible natural resource held for conservation, including:**
 - (i) **The nature or type of the resource;**
 - (ii) **Information regarding the location and quantity of the resource;**
 - (iii) **If applicable, the significant judgments applied to determine the various units of account of a tangible natural resource held for conservation;**
 - (iv) **The significance of the tangible natural resource held for conservation in relation to achieving the entity's objectives, including how it is expected to provide service potential; and**
 - (v) **The significant judgments applied to determine that the tangible natural resource held for conservation meets the asset recognition criteria;**
 - (b) **The measurement model and basis used for determining the gross carrying amount;**
 - (c) **If applicable, why the asset is depreciable, the depreciation method used, the residual value, if applicable, the useful lives or the depreciation rates used, and the gross carrying amount and the accumulated depreciation at the beginning and end of the period; and**
 - (d) **A reconciliation of the carrying amount at the beginning and end of the period, showing:**
 - (i) **Any additions;**

- (ii) **Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS 44 and other disposals;**
 - (iii) **Increases and decreases resulting from revaluations under paragraphs 27–30 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21;**
 - (iv) **If applicable, depreciation;**
 - (v) **Impairment losses recognized in surplus or deficit in accordance with IPSAS 21;**
 - (vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21; and**
 - (vii) **Other relevant changes, such as increases and decreases resulting from reclassifications under paragraph 47.**
55. **The financial statements shall also disclose for each class of recognized tangible natural resources held for conservation in the financial statements:**
- (a) **The existence and amounts of restrictions on title, legal, or similar limits on the use of the resources due to environmental or other regulatory requirements;**
 - (b) **The existence and amounts of tangible natural resources held for conservation pledged as securities for liabilities; and**
 - (c) **The existence of other stewardship responsibilities.**
56. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For recognized tangible natural resources held for conservation, such disclosure may arise from changes in estimates with respect to:
- (a) Residual values, if applicable;
 - (b) Useful lives; and
 - (c) Depreciation methods.
57. **If a class of recognized tangible natural resources held for conservation is stated at revalued amounts, the following shall be disclosed:**
- (a) **The effective date of the revaluation;**
 - (b) **Whether an independent valuer was involved;**
 - (c) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
 - (d) **The sum of all revaluation surpluses for individual tangible natural resources held for conservation within that class; and**
 - (e) **The sum of all revaluation deficits for individual tangible natural resources held for conservation within that class.**
58. In accordance with IPSAS 21, an entity discloses information on impaired tangible natural resources held for conservation in addition to the information required by paragraphs 54(d)(iii) and 54(d)(v)–54(d)(vi).
59. Where applicable, entities are encouraged, but not required, to disclose the gross carrying amount of any fully depreciated tangible natural resource held for conservation, as users of the financial statements may find such information relevant to their needs.

60. In rare cases, the disclosure of information regarding the location, quantity, and carrying amount of a rare or endangered tangible natural resource held for conservation may lead to further endangerment or degradation. In these cases, an entity need not disclose such information, but shall disclose the general nature of the resource, together with the fact that, and the reason why, the information has not been disclosed. Paragraphs AG42–AG43 provide additional guidance on rare or endangered resources.

Current Value Measurement

61. As noted in paragraph 24, the initial measurement of a recognized tangible natural resource held for conservation at its deemed cost does not require the entity to choose the current value model for its accounting policy for subsequent measurement. Where it does so, the requirements of paragraph 62 are applicable for recognized tangible natural resources held for conservation which are subsequently measured using the current value model.

62. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

- (a) **For tangible natural resources held for conservation that are measured at current operational value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**
- (b) **For current operational value measurements estimated using significant unobservable inputs, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

63. To meet the objectives in paragraph 62, an entity shall consider all of the following:

- (a) The level of detail necessary to satisfy the disclosure requirements;
- (b) How much emphasis to place on each of the various requirements;
- (c) How much aggregation or disaggregation to undertake; and
- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard are insufficient to meet the objectives in paragraph 62, an entity shall disclose additional information necessary to meet those objectives.

64. To meet the objectives in paragraph 62, an entity shall disclose, at a minimum, the following information for each class of tangible natural resources held for conservation measured at current operational value in the statement of financial position after initial recognition:

- (a) The current operational value measurement at the end of the reporting period;
- (b) Whether the current operational value measurements are estimated using observable or unobservable inputs;
- (c) For current operational value estimated using significant unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value measurement (e.g., a cost approach or a market approach). If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach), the entity shall disclose that change and the reason(s) for making it. For current operational value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value (e.g., when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when

providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value measurement and are reasonably available to the entity;

- (d) For current operational value measurements estimated using significant unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;
 - (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and
 - (iii) Purchases and sales (each of those types of changes disclosed separately).
- (e) For current operational value estimated using significant unobservable inputs, the amount of the total gains or losses for the period in paragraph 64(d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those tangible natural resources held for conservation held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;
- (f) For current operational value measurements estimated using significant unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value measurements from period to period); and
- (g) For current operational value measurements estimated using significant unobservable inputs a narrative description of the sensitivity of the current operational value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the current operational value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 64(c).

Paragraphs 65–66 provides information on determining the appropriate classes of tangible natural resources held for conservation for current value measurement disclosures.

- 65. For the purposes of current value measurement disclosures, an entity may decide that a greater disaggregation of the classes of tangible natural resources held for conservation (see paragraph 8) is required on the basis of the extent to which the current operational value uses observable or unobservable inputs. For example, assets whose current operational value can only be measured using significant unobservable inputs are likely to be subject to different risks compared to assets that can be measured using observable inputs. Such differences in risk may warrant disaggregation of these assets into different classes.
- 66. The number of classes may need to be greater for current operational value measurements estimated using significant unobservable inputs, because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of tangible natural resources held for conservation for which disclosures about current operational value measurements should be provided requires judgment. For example, a class of tangible natural resources held for conservation may often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide the information sufficient to permit reconciliation to the line items presented in the statement of financial position.

67. An entity shall present the quantitative current operational value measurement disclosures required by this Standard in a tabular format unless another format is more appropriate.

Disclosure of Unrecognized Tangible Natural Resources Held for Conservation

68. **Where a tangible natural resource held for conservation meets the definition of an asset but is not recognized in the financial statements because, at initial measurement, its cost or deemed cost cannot be measured reliably, the entity shall disclose:**
- (a) **Qualitative information regarding the resource such as the nature or type of resource, its location, and if available, its quantity;**
 - (b) **The difficulties in obtaining a reliable measurement that prevented recognition; and**
 - (c) **The significance of the unrecognized tangible natural resource held for conservation in relation to delivery of the entity's objectives.**
69. Similar to paragraph 60, in rare cases, the disclosure of information regarding the location and quantity of a rare or endangered unrecognized tangible natural resource held for conservation may lead to further endangerment or degradation. In these cases, an entity need not disclosure such information but shall disclose the general nature of the resource held, together with the fact that, and the reason why, certain information has not been disclosed. Paragraphs AG42–AG43 provide additional guidance on rare or endangered resources.
70. Where subsequent expenditures on unrecognized tangible natural resources held for conservation are recognized, the disclosure requirements in paragraphs 54–67 will apply.
71. Where an entity acts as a steward of an unrecognized tangible natural resource held for conservation, the entity shall explain in the Notes to the Financial Statements the nature of its stewardship rights and responsibilities, including the legislation or similar means that establishes the stewardship arrangement over the resource.

Effective Date and Transition

Effective Date

72. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies this Standard for a period beginning before January 1, 2028, it shall disclose that fact.**
73. When an entity adopts accrual basis IPSAS Standards, as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

74. **An entity shall apply this Standard using one of the following two methods:**
- (a) **Using a modified retrospective approach by recognizing the tangible natural resources held for conservation which meet the asset recognition criteria on the date of initial application of this Standard at their deemed costs (current operational values) as at the date of initial application. The entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of 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. Under this transition method, an entity need not consider tangible natural**

resources held for conservation which had previously met the recognition criteria but were derecognized prior to the date of initial application; or

(b) Retrospectively in accordance with IPSAS 3.

75. For the purposes of the requirements in paragraph 74, the date of initial application is the start of the reporting period in which an entity first applies this Standard.
76. If the current operational value of a tangible natural resource held for conservation cannot be reliably measured upon the initial application of this Standard, the requirements in paragraph 12 are applicable and only disclosures are required upon initial application. If the tangible natural resource held for conservation becomes reliably measurable subsequent to initial application, the entity shall, from that date, recognize the tangible natural resource held for conservation in accordance with paragraph 10 and apply the measurement principles in this Standard.
77. If the application of this Standard results in the reclassification of an asset that was previously within the scope of another IPSAS Standard, the asset shall be reclassified as a tangible natural resource held for conservation at its carrying amount (along with any revaluation surplus, if applicable and identifiable) on the date of initial application of this Standard, and the entity shall apply the subsequent measurement requirements in paragraphs 24–42. An entity shall also consider whether or not the disclosure requirements in paragraphs 55(b) and 60 are applicable.
78. If an entity elects to apply this Standard using the modified retrospective approach in accordance with paragraph 74(a), the entity shall disclose this fact.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 51.

Introduction

AG1. This application guidance is organized into the following categories:

- (a) Scope (paragraphs AG2–AG4);
- (b) Definitions (paragraphs AG5–AG13);
- (c) Recognition (paragraphs AG14–AG24);
- (d) Measurement (paragraphs AG25–AG39); and
- (e) Presentation (paragraphs AG40–AG43).

Scope (paragraphs 3–7)

Unit of Account and Scope

AG2. The assessment of the unit of account may impact whether an item is within the scope of this Standard, as a resource could consist of multiple units of account that are each within the scope of different Standards. Because of the potentially significant difference in accounting outcomes, the determination of the appropriate unit of account is critical when accounting for tangible natural resources, including those held for conservation. In these situations, the scoping requirements in paragraphs 3–7 should be applied to each unit of account, and only the unit(s) of account which meets the definition of a tangible natural resource held for conservation is within the scope of this Standard. Once an entity has determined that a unit of account is within the scope of this Standard, paragraph 13 requires the entity to apply the recognition and measurement guidance to each unit of account.

Other Scope Considerations

AG3. This Standard applies to all tangible natural resources held for conservation, and paragraph 4 provides additional clarification on assets that are not within the scope of this Standard. An entity may hold a tangible natural resource for multiple benefits, such as providing ecological and societal value, for public enjoyment, or for cultural reasons, and the conservation of these resources maintains these benefits for current and future generations. In situations where an entity holds a tangible natural resource for multiple objectives, the entity considers all relevant facts and circumstances to determine if the tangible natural resource is held primarily for conservation or for another purpose such as the production or supply of goods or services.

AG4. To be within the scope of this Standard, a tangible asset must have both of the following two key characteristics:

- (a) The tangible asset must be naturally occurring; and
- (b) It must be held primarily for conservation (see paragraphs AG6–AG13).

Some tangible assets may have certain aspects which overlap with these characteristics. For example, some heritage assets within the scope of IPSAS 45 could be preserved for the benefit of present or future generations because of their rarity and/or significance in relation, but not limited, to their archeological, cultural, or historical features. Such heritage assets are not within the scope of this Standard, as they are not naturally occurring and therefore do not have all of the necessary characteristics to meet the definition of a

tangible natural resource held for conservation. Similarly, other tangible assets such as land are naturally occurring, but if the land is not held primarily for conservation, it is also not within the scope of this Standard.

Definitions (paragraphs 8–9)

- AG5. Naturally occurring items are the living and non-living components of the Earth, together constituting the biophysical and geophysical environment, which came into existence in nature.
- AG6. Conservation is the act of managing and protecting a tangible natural resource from degradation and is sometimes referred to as preservation. Generally, both conservation and preservation refer to the same concept, but for the purposes of this Standard, the term conservation is used.
- AG7. In practice, the activities which constitute conservation vary significantly depending on the resource that is being conserved and the objective of the conservation effort. In some situations, conservation could be limited to restricting access to a resource. In other situations where a resource requires rehabilitation, conservation could involve actively managing the growth or restoration of the resource.
- AG8. Tangible natural resources held for conservation, rather than for their use or for disposal, may be recognized as assets because of the service potential provided in achieving the objectives of a public sector entity. For example, a government or public sector entity could have an objective to conserve a tangible natural resource, as the resource is perceived to provide cultural or ecological value to its citizens in current and future generations. The cultural or ecological value resulting from achieving the public sector entity's objective represents service potential which could give rise to an asset.
- AG9. An entity may demonstrate that a tangible natural resource held for conservation embodies service potential when there is a plan detailing how the conservation of the item is expected to achieve the entity's objectives, the entity's ability and intent to carry out the plan, and if necessary, how the entity will obtain the resources necessary to carry out this plan. Tangible natural resources held for conservation which embody service potential, are controlled by the entity as a result of past events and can be measured reliably shall be recognized as an asset within the scope of this Standard.
- AG10. In the context of conservation, degradation generally refers to the reduction in the overall service potential embodied in a tangible natural resource held for conservation. Degradation can result from events leading to a decline in the quantity and/or quality of a tangible natural resource held for conservation, and could include:
- (a) Depletion due to the active use or consumption of an asset, even if the use or consumption is carried out by a third party;
 - (b) Destruction of the asset, such as forest fires resulting from deliberate or accidental human action; and
 - (c) Other events that could result in the decline in the quantity and/or quality of the asset, such as pollution.
- AG11. Some events may appear to lead to a decline in the quantity and/or quality of a resource when viewed in isolation but generally do not constitute degradation when considered in the context of the natural processes that are applicable to the tangible natural resource held for conservation. For example, the natural deaths of individual living resources due to age or disease within an increasing population is generally not considered degradation.
- AG12. In some situations, preventing the degradation of a resource could result in an increase in its service potential due to the resource's natural growth. While an increase in service potential is a possible result of conservation, such an increase is not a necessary requirement for conservation within the context of this Standard.
- AG13. Some tangible natural resources held for conservation may be prone to uncontrollable events, such as frequent earthquakes or floods, which could lead to their degradation. For these resources, conservation

activities may be limited to the mitigation of the potential degradation to these resources, as it is unlikely that the entity will be able to completely prevent the degradation of the resource from these events.

Recognition (paragraphs 10–13)

Unit of Account

AG14. This Standard does not prescribe a unit of account for a tangible natural resource held for conservation. However, the identification of a unit of account should be based on what the entity judges to be the most useful and relevant to users of the financial statements and achieves the qualitative characteristics of financial reporting while taking into account the constraints, such as materiality and cost-benefit considerations.

AG15. The following factors can indicate that separate tangible natural resources held for conservation may be aggregated into one single unit of account:

- (a) The items are subject to similar risks, despite having some different physical characteristics;
- (b) The items are managed together in aggregate and likely subject of the same transactions;
- (c) The items are unlikely or unable to separately provide service potential to the entity; and
- (d) The items can be measured together as a group and the entity is unable to measure the items individually.

AG16. For example, there may be different natural resources held for conservation, such as a rare natural forest and multiple wild animal species in a large reserve area which is being conserved on an integrated basis. Activities such as controlling access into the reserve and monitoring the biodiversity within the area could be performed on a reserve-wide basis with the different species of plants and animals within the reserve not being managed individually. Although the land, forest and animal species have different physical characteristics, the variety of conservation activities on different items in the reserve are designed to ensure that all biodiversity will flourish as a single unit. In this case, it may be appropriate to account for the various tangible natural resources within the reserve, including the land, as a single unit of account.

AG17. In contrast, the following factors can indicate that significant parts of a tangible natural resource held for conservation may constitute separate units of account:

- (a) The parts are separately identifiable and measurable; and
- (b) The parts are material in relation to the overall asset.

For example, if a specific part of a tangible natural resource held for conservation has a finite useful life while the rest of the resource has an indefinite useful life, the specific part could constitute a separate unit of account. See paragraph AG39.

AG18. The determination of the unit of account may also impact the subsequent measurement of a tangible natural resource held for conservation. When a tangible natural resource held for conservation consists of multiple units of account, and the cost or current value of each unit is significant in relation to the total cost or current value of the resource, each unit of account shall be measured separately. Therefore, subsequent measurement considerations need to be carefully considered by the entity when making the initial judgment about the appropriate unit of account for financial reporting purposes.

Application of the Recognition Criteria

AG19. The recognition of a tangible natural resource held for conservation as an asset involves an assessment of any uncertainties related to the existence and measurement of the item. For some naturally occurring items, until the item is extracted, there will be uncertainty over the existence, quantity and quality of the item in a given location. This impacts the assessment of whether the item is a recognizable asset because an item

that is subjected to existence uncertainty may not be considered a resource until this uncertainty has been resolved.

- AG20. An entity evaluates all costs related to a tangible natural resource held for conservation at the time they are incurred using the recognition principle in paragraph 10. These costs include costs incurred initially to acquire the resource.

Control as a Result of Past Events

- AG21. An entity can obtain control of a resource through an event that is not a transaction in an orderly market, which could include non-exchange transactions or the exercise of sovereign powers, or through exchange transactions, such as a purchase from a third party. The exercise of sovereign power creates an asset only when the entity has a right to receive resources, and it can control those resources. For example, a government entity may be required to pass legislation and establish a legal framework to implement programs to conserve a tangible natural resource before being able to conclude that these resources can be controlled.

- AG22. In assessing whether it presently controls a tangible natural resource held for conservation, an entity assesses whether one or more of the following indicators of control exists:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict others to access the resource;
- (c) The means to ensure that the entity can achieve its objectives with the resource; or
- (d) The existence of an enforceable right to service potential arising from the resource.

Assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

- AG23. No one indicator is more important than another indicator. Legal ownership is only one indicator demonstrating control of a tangible natural resource held for conservation. An entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the conservation of the resource and obtain its service potential. Conversely, an entity may have legal ownership but no rights to the service potential. In such circumstances, an entity considers substance over form in determining whether or not it controls the asset.

Changes in the Ability to Reliably Measure a Resource due to Changes in Facts and Circumstances

- AG24. When a tangible natural resource held for conservation becomes reliably measurable due to changes in facts and circumstances, an entity applies the guidance on changes in accounting estimates in IPSAS 3.

Measurement (paragraphs 17–42)

Application of the Current Value Model

- AG25. The frequency of revaluations depends upon the changes in current values of the tangible natural resources held for conservation being revalued. When the current value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some tangible natural resources held for conservation may experience significant and volatile changes in current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for other tangible natural resources held for conservation. For example, a mature tangible natural resource held for conservation with only insignificant annual changes in current value may only require a revaluation every three or five years.

AG26. When a tangible natural resource held for conservation is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, the asset is treated in one of the following ways:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated proportionately to the change in carrying amount. The accumulated depreciation (if applicable) at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation (if applicable) and accumulated impairment losses forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 28 and 29.

AG27. A class of tangible natural resources held for conservation is a group of assets of a similar nature or subject to similar conservation activities. The following are examples of separate classes:

- (a) Conservation areas consisting of land, wildlife, habitat areas, and bodies of water which are all subjected to the same management activities;
- (b) Certain species of animals subject to a specific conservation program; and
- (c) Forests in designated areas.

AG28. The items within a class of tangible natural resources held for conservation are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

AG29. Some or all of the revaluation surplus included in net assets/equity in respect of tangible natural resources held for conservation may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of tangible natural resources held for conservation to which the surplus relates are derecognized. However, if depreciation is applicable, some of the surplus may be transferred as the assets are depreciated. In such a case, the amount of surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets, and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

Deferred Consideration

AG30. The cost of a tangible natural resource held for conservation for an item referred to in paragraph 19 is the cash price equivalent at initial recognition. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.

Exchange of Assets

AG31. One or more tangible natural resources held for conservation may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such a tangible natural resource held for conservation is measured at its current value (see paragraph AG33) unless: 1) the exchange lacks commercial substance;

or 2) the current value of neither the asset received nor the asset given up is reliably measurable. (See paragraph 11.) The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.

- AG32. An entity determines whether an exchange transaction has commercial substance by considering the extent to which the net future cash flows and/or service potential from the exchanged assets are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) The configuration (risk, timing, and amount) of the service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
 - (b) The portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the current value of the assets exchanged.

For the purpose of determining the portion of the entity's operations affected by the transaction, as in paragraph AG32(b), the entity calculates the present value of the expected cash flows (or post-tax cash flows when tax applies) to arise from the continuing use of an asset and from its expected disposal. The result of these analyses may be clear without an entity having to perform detailed calculations.

- AG33. For a tangible natural resource held for conservation acquired through a non-monetary exchange transaction, if an entity is able to measure reliably the current operational value of either the asset received or the current value of the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current operational value of the asset received is more clearly evident.

Depreciation

- AG34. Although there is a rebuttable presumption that the tangible natural resources held for conservation within the scope of this Standard have indefinite useful lives, a tangible natural resource held for conservation may still have a finite useful life based on an analysis of all relevant factors. In such cases, a significant part of the tangible natural resource held for conservation may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same resource. Such parts may be grouped in determining the depreciation charge.
- AG35. To the extent that an entity depreciates separately some parts of a tangible natural resource held for conservation, it also separately considers depreciation for the remainder of the resource unless the remainder consists of the parts that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the useful lives of its parts. In some situations, an entity may conclude that the remainder of the resource has an indefinite useful life and is, therefore, not depreciated.

Finite and Indefinite Useful Lives

- AG36. Many tangible natural resources held for conservation have indefinite useful lives. For example, although a conserved geological feature is subject to erosion over time, the applicable geological time scale is so long that there is no foreseeable limit to the period over which the asset is expected to provide service potential.
- AG37. With some exceptions, land that is held for conservation has an indefinite useful life and therefore is not depreciated. One example of land with a finite useful life is when land is being encroached by rising sea levels and the entity expects that, within a finite period of time, the land will no longer be available due to either a severe and continual risk of flooding or actual submersion beneath the water.

- AG38. Depending on the factors associated with the loss or displacement of land held for conservation, an entity may need to consider the appropriateness of depreciating land in future reporting periods and should continue to assess for impairment in accordance with the requirements of this Standard and IPSAS 21. Where land held for conservation is being lost or displaced as a result of, for example, unexpected coastline erosion, and such a loss was not contemplated in the assessment of useful life, the entity will need to apply:
- (a) The derecognition requirements in paragraphs 43–46 of this Standard; or
 - (b) The impairment requirements in IPSAS 21.

- AG39. When a tangible natural resource held for conservation consists of living resources, an entity will need to consider factors such as the characteristics and risks associated with the resource and its unit of account when determining whether the resource has an indefinite or finite useful life. Although individual organisms generally have a finite life, living resources are typically conserved at a population-wide level, so a stable or increasing population would generally support an indefinite useful life. Conversely, if a species is endangered and its overall population is declining over time, a finite life may be appropriate.

Presentation (paragraphs 51–71)

Disclosure of Unrecognized Tangible Natural Resources when Cost or Current Value Cannot be Measured Reliably

- AG40. The disclosures required by paragraph 68 for unrecognized tangible natural resources held for conservation should ensure that, when read in the context of information about recognized tangible natural resources, the financial statements provide useful and relevant information about the entity's overall holding of tangible natural resources held for conservation, and thereby support users' evaluation of the entity's finances, including its net financial position, and understanding of its ability to deliver services.
- AG41. These disclosures may be presented in aggregate for groups or classes of tangible natural resources held for conservation, provided this aggregation does not obscure significant information.

Additional Guidance on Rare or Endangered Tangible Natural Resources Held for Conservation

- AG42. Endangered tangible natural resources held for conservation are resources which are seriously at risk of extinction, while rare tangible natural resources held for conservation refer to resources which are uncommon, scarce or infrequently encountered. While not automatically endangered, rare species of living resources are typically more vulnerable to extinction due to their limited numbers.
- AG43. An entity assesses whether a resource is considered rare or endangered based on all relevant facts and circumstances, such as the known quantities of the resource or a population's vulnerabilities to risk factors such as disease or habitat loss. In practice, the assessment could also be based on designations determined by third parties such as international organizations or government organizations.

Appendix B

Amendments to Other IPSAS Standards

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 88(ba), 107(ca), and 153T are added, and paragraphs 92 and 134 are amended. New text is underlined, and deleted text is struck through.

Information to be Presented on the Face of the Statement of Financial Position

...

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

...

(ba) Tangible natural resources held for conservation;

...

92. The use of different measurement models for different classes of assets suggests that their nature or function differs and, therefore, ~~that~~ they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 45. Similarly, different classes of tangible natural resources held for conservation can be carried at historical cost or current value in accordance with IPSAS 51, *Tangible Natural Resources Held for Conservation*.

...

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

...

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

...

(ca) Disposals of tangible natural resources held for conservation;

...

Disclosure of Accounting Policies

...

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the ~~fair-current~~ value or historical cost model to its investment property (see IPSAS 16, *Investment Property*.) Some IPSASs specifically require disclosure of particular accounting policies, including choices made by management between different policies allowed in those Standards. For example, IPSAS 45 and IPSAS 51 requires disclosure of the measurement bases used for classes of property, plant, and equipment or classes of tangible natural resources held for conservation. IPSAS 5, *Borrowing Costs*, requires disclosure of whether borrowing costs are recognized immediately as an expense, or capitalized as part of the cost of qualifying assets.

Effective Date

...

153T. Paragraphs 88(ba) and 107(ca) were added, and paragraphs 92 and 134 were amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 59J is added and paragraph 22 is amended. New text is underlined, and deleted text is struck through.

...

22. The initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets*, ~~or IPSAS 45, *Property, Plant, and Equipment*, or IPSAS 51, *Tangible Natural Resources Held for Conservation*~~, is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 31, ~~or IPSAS 45, or IPSAS 51~~, rather than in accordance with this Standard.

...

Effective Date

...

59J. Paragraph 22 was amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 12, *Inventories*

Paragraph 51K is added and paragraph 4 is amended. New text is underlined, and deleted text is struck through.

...

4. ~~This Standard does not apply to tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.~~

...

Effective Date

...

51K. Paragraph 4 was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 16, *Investment Property*

Paragraphs 6(c) and 101M are added. New text is underlined.

...

6. This Standard does not apply to:

...

(c) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

...

Effective Date

...

101M. Paragraph 6(c) was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3(e) and 56L are added. New text is underlined.

...

3. This Standard does not apply to:

...

(e) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

...

Effective Date

...

56L. Paragraph 3(e) was added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*

Paragraphs 62D, 62E, and 154R are added. New text is underlined.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

...

IPSAS 51, *Tangible Natural Resources Held for Conservation*

62D. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to tangible natural resources held for conservation until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

62E. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources held for conservation in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

...

Effective Date

...

154R. Paragraphs 62D and 62E were added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* — Issued in November 2025

Paragraphs 36A, AG54(m), AG56(j), and AG61 are added. New text is underlined.

...

Effective Date

...

36A. Paragraphs AG54(m), AG56(j) and AG61 were added by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

IPSAS 51, *Tangible Natural Resources Held for Conservation*

...

AG54. The following Standards are relevant:

...

- (k) ~~IPSAS 45, *Property, Plant, and Equipment*; and~~
- (l) ~~IPSAS 50, *Exploration for and Evaluation of Mineral Resources*; and~~
- (m) IPSAS 51, *Tangible Natural Resources Held for Conservation*.

...

AG56. Where a first time adopter has not recognized the following non-financial assets under its previous basis of accounting, it may take advantage of the transition period and may recognize and/or measure them in accordance with the requirements of IPSAS Standards for reporting periods from any date within the transition period:

- (i) ~~Exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*); and~~
- (j) Tangible natural resources held for conservation (see IPSAS 51, *Tangible Natural Resources Held for Conservation*.)

AG61. This IPSAS Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSAS Standards to recognize non-financial assets in accordance with IPSAS 12, 16, 27, and 45. During this period, a first-time adopter may need to consider the recognition requirements of those IPSAS Standards at the same time as considering the recognition of tangible natural resources in IPSAS 51. Where a first-time adopter takes advantage of the exemption in this Standard, it is not required to recognize tangible natural resources held for conservation until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS Standard (whichever is earlier).

...

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraphs 3(e) and AG2 are amended, and paragraph 85E is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

...

- (c) ~~Property, plant, and equipment classified as held for sale in accordance with IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*; and~~
- (d) ~~The recognition and measurement of exploration and evaluation assets (see IPSAS 50, *Exploration for and Evaluation of Mineral Resources*); and~~
- (e) Tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

...

Effective Date

...

85E. Paragraphs 3(e) and AG2 were amended by IPSAS 51, *Tangible Natural Resources Held for Conservation*, issued in January 2026. An entity shall apply these amendments for annual financial

statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.

...

Heritage Assets

...

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, ~~environmental~~, historical, ~~natural~~, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

...

Basis for Conclusions

...

Definition of Property, Plant, and Equipment

...

Characteristics of Heritage and Infrastructure Assets

...

BC20A. During the development of IPSAS 51, *Tangible Natural Resources Held for Conservation*, the IPSASB decided to amend the description of heritage assets to better distinguish between heritage assets which are not naturally occurring and naturally occurring heritage assets held for conservation. As a result, the description of heritage assets in paragraph AG2 was amended to remove the references to environmental and natural features.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 51.

Introduction

- BC1. In March 2020, the IPSASB approved the project brief for the Natural Resources project due to the significance of natural resources in many jurisdictions, the growing public concerns for sustainable management of the natural environment, and the lack of explicit accounting guidance on natural resources. The aim of the project was to develop IPSAS Standards guidance relating to the recognition, measurement, display, and disclosure of tangible natural resources by public sector entities in their general purpose financial statements (GPFS). As the project was a financial reporting project, the project brief stated that any resulting IPSAS Standards guidance would be developed in accordance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).
- BC2. In May 2022, the IPSASB issued the Consultation Paper (CP), *Natural Resources*. The CP discussed the application of the principles in the Conceptual Framework to the accounting for natural resources and set out a number of the IPSASB's overarching preliminary views, as well as preliminary views specific to subsoil resources, water, and living resources. The CP also highlighted the challenges with the recognition of unextracted subsoil resources as assets within the Conceptual Framework and clarified that recognition is not achievable due to their inherent existence uncertainty.

Development of Exposure Draft 92, *Tangible Natural Resources*

- BC3. Respondents to the CP generally agreed with the IPSASB's preliminary views. The IPSASB received comments from indigenous groups indicating that based on indigenous traditions and practices, it may be difficult for any entity to demonstrate control over natural resources. Many respondents also acknowledged that natural resources are likely to only meet the asset recognition criteria in very limited circumstances, while others suggested that it may be more appropriate to report information on natural resources in the broader general purpose financial reports (GPFRs) due to the expected difficulties in recognition.
- BC4. In response to this feedback, the IPSASB noted that from a financial reporting perspective, control over natural resources, and the broader issue of whether natural resources can be recognized, should be considered on a case-by-case basis using the recognition and measurement principles in the Conceptual Framework. Based on this reasoning and considering the original aim of the project, the IPSASB decided in March 2023 to proceed with developing Exposure Draft (ED) 92 to provide financial reporting guidance on natural resources in the context of the principles in the Conceptual Framework. The IPSASB also noted that the development of such financial reporting guidance in an IPSAS Standard does not preclude the Board from developing non-financial reporting guidance on natural resources in the future.

Focus on Tangible Items

- BC5. When the IPSASB developed the project brief and the CP, the IPSASB decided to limit the scope of the project to tangible items for the following reasons:
- (a) The feedback from constituents indicated that the development of guidance for tangible natural resources, such as subsoil resources, water, and living resources, was a greater priority than the development of guidance for natural resources without physical substance, i.e., intangible natural resources, such as the electromagnetic spectrum;
 - (b) The IPSASB decided that focusing on tangible natural resources alone in this project would be a more efficient use of its staff resources; and

- (c) The development of guidance for intangible natural resources would be better accomplished if it was part of a more comprehensive update of the accounting guidance for intangible assets.

BC6. The IPSASB noted that the above reasons continued to be valid when it developed ED 92. As a result, the IPSASB decided to limit the focus of the ED to tangible natural resources and named the ED, “[draft] IPSAS [X], (ED 92), *Tangible Natural Resources*”.

Location of Guidance and Objective of IPSAS 51

BC7. Due to the similarities between the proposed guidance on the recognition and measurement of natural resources and the potential relevance of guidance regarding assets within the scope of existing IPSAS, the IPSASB considered whether the guidance proposed in ED 92 should be located in a standalone IPSAS Standard or as amendments to existing IPSAS Standards. Having considered the topics that might need to be covered such as assets held for conservation purposes, the IPSASB decided that the proposed guidance on natural resources should be located in a standalone IPSAS Standard in order to address the challenges around recognition of such assets explicitly, for public interest reasons, as well as highlighting the importance of the topic in the public sector and providing guidance in a single place in order to facilitate implementation by preparers.

BC8. Respondents to ED 92 generally agreed with locating the guidance on tangible natural resources within a standalone IPSAS Standard or did not raise any concerns which were not previously considered by the IPSASB. As a result, the IPSASB decided to proceed with the development of guidance in a standalone IPSAS Standard.

Scope (paragraphs 3–7)

Scope of ED 92, Tangible Natural Resources

BC9. When ED 92 was developed, the IPSASB noted that some items which could be considered tangible natural resources may have a primary intended use within the scope of another existing IPSAS Standard. The IPSASB therefore decided to exclude such items from the scope of this Standard to avoid duplication of guidance. Based on this scoping approach, ED 92 was developed as a residual standard that applies to any items meeting the definition of tangible natural resources which are not within the scope of existing IPSAS Standards.

BC10. The IPSASB also discussed whether ED 92 should include guidance on the accounting and disclosure of natural resource-related obligations and decided that these obligations would be within the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. As a result, the IPSASB decided that no additional guidance on such obligations would be provided in ED 92.

Scope of IPSAS 51, Tangible Natural Resources Held for Conservation

BC11. Respondents to ED 92 generally disagreed with the proposed residual scoping approach and noted that, consistent with an alternative view included in ED 92, they could not identify any tangible natural resources which were not already within the scope of existing IPSAS Standards other than those held for conservation. As a result, the IPSASB decided to clarify the scope to focus on conservation and named the final IPSAS Standard, “IPSAS 51, *Tangible Natural Resource Held for Conservation*.” Based on this clarified scope, the flow chart in ED 92 regarding the proposed residual scoping approach and applicability of guidance was removed, as it was no longer necessary.

Definitions (paragraphs 8–9)

Development of the Definitions in the Consultation Paper and ED 92

- BC12. When the IPSASB developed the CP, it had proposed to describe a ‘natural resource’ as an item which is: (a) a resource as described in the IPSASB’s Conceptual Framework; (b) naturally occurring; and (c) in its natural state. While the IPSASB noted that the requirement to be in its natural state was necessary to delineate between natural and other resources, respondents to the CP noted that the general description would be difficult to implement due to a lack of clarity on what is in its natural state and what is considered naturally occurring.
- BC13. In response to constituents’ concerns, the IPSASB decided to develop a definition of ‘tangible natural resource’ in ED 92 using a top-down approach, starting with the broader concept of ‘nature’ as defined in other internationally relevant reporting frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) Framework and the United Nation’s System of Environmental-Economic Accounting (2012) (UN SEEA) Central Framework.
- BC14. These frameworks envisioned nature as a collection of ‘environmental assets,’ which, at the time ED 92 was developed, were defined as the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity.
- BC15. The IPSASB noted that the term ‘environmental assets’ embodies the same key characteristics of ‘natural resources’ as described in the CP. However, this term could not be incorporated as it was into the IPSAS Standards, as the term ‘asset’ already has a specific definition in the IPSASB’s Conceptual Framework that is not consistent with how it is defined and used in the TNFD or UN SEEA frameworks.
- BC16. Furthermore, the concept of providing benefits to humanity is similar to the concept of providing service potential or the capability to generate economic benefits in the IPSASB’s Conceptual Framework. However, because the objective of financial reporting using IPSAS Standards is to provide information about an individual entity for accountability and decision-making purposes, the IPSASB decided it would be more appropriate for a tangible natural resource to refer to service potential or the capability to generate economic benefits rather than broadly referring to benefits to humanity.
- BC17. Finally, because ED 92 focuses on tangible items only, using the term ‘tangible natural resources’ rather than ‘environmental assets’ is another way to highlight the differences from the concepts in the TNFD Framework and the UN SEEA Central Framework. This differentiation will avoid unintended interactions between tangible natural resources in financial reporting under IPSAS Standards and the reporting of naturally occurring items in the sustainability and statistical reporting context. The guidance from the other internationally relevant reporting frameworks could however still be relevant in considering the financial reporting treatment of items that these frameworks classify under the land, freshwater and ocean realms.
- BC18. As a result, the IPSASB developed the definition of ‘tangible natural resources’ in paragraph 6 of ED 92 based on the term ‘environmental assets’ from the TNFD Framework and UN SEEA Central Framework but modified the definition to reflect the conventional nomenclature and objectives of financial reporting under IPSAS Standards.

Revisions to Definitions in IPSAS 51

- BC19. Due to the clarification of scope as explained in paragraph BC11, the IPSASB decided to further revise the definitions in IPSAS 51 to be consistent with the clarified scope. The IPSASB noted that the definition of a tangible natural resource held for conservation would need to capture the following characteristics:
- (a) The item is naturally occurring;
 - (b) The item is a resource which embodies service potential;

- (c) The item has physical substance; and
- (d) The item is held for conservation, which means it is managed to prevent its degradation.

BC20. Based on these characteristics, and to be consistent with the definitions in other IPSAS Standards, the IPSASB developed the definition in paragraph 8 of IPSAS 51 by referring to naturally occurring tangible assets which are managed to prevent their degradation. As a result of the new definition, the standalone definitions of 'natural resource' and 'tangible natural resource' were no longer needed and therefore were removed.

Recognition (paragraphs 10–13)

- BC21. When the IPSASB developed the CP, it included preliminary views indicating that the recognition of tangible natural resources, especially subsoil resources, as assets in GPFS would be challenging due to the definition of an asset, and the asset recognition criteria in the Conceptual Framework, as well as limitations in the technologies currently used to identify, quantify, and establish the existence of certain tangible natural resources.
- BC22. To operationalize the application of the asset recognition criteria from the Conceptual Framework to tangible natural resources held for conservation, the IPSASB looked to the recognition criteria in the IPSAS Standards for other tangible assets, such as IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 27, *Agriculture*, and IPSAS 45, *Property, Plant, and Equipment*. The IPSASB noted that most of these standards shared similar recognition criteria regarding the probable flow of future economic benefits or service potential to the entity and the ability to reliably measure the asset. These two criteria were used as a starting point to develop the recognition criteria in paragraph 10 of this Standard.
- BC23. The IPSASB initially considered whether the first recognition criterion should include both economic benefits and service potential to be consistent with the recognition of tangible assets in other IPSAS Standards. However, after the clarification of scope as explained in paragraph BC11, the IPSASB decided that tangible natural resources held for conservation are only held for their operational capacity, as their conservation would only provide service potential to an entity. Other tangible natural resources which are held for their capacity to generate economic benefits, or both economic benefits and service potential, would likely be within the scope of other IPSAS Standards.
- BC24. The IPSASB also noted that unlike property, plant, and equipment, investment property, or inventories where the determination of control is relatively straight forward when an entity incurs cost to acquire, develop, or construct the asset, the assessment of control for tangible natural resources held for conservation is more complex and will require the application of judgment to facts and circumstances specific to each resource. As a result, the IPSASB also included the demonstration of control from past events as an explicit recognition criterion for tangible natural resources held for conservation.
- BC25. The IPSASB considered using the term "natural assets" to refer to tangible natural resources which have met the asset recognition criteria. However, this term was already used in the GPFRs of various public sector entities to broadly refer to items which include tangible natural resources held for conservation, infrastructure developed from tangible natural resources, or ecosystems. The IPSASB also considered using the term "tangible natural resource assets" but noted that some tangible natural resources held for conservation may meet the definition of an asset and remain unrecognized as they cannot be measured reliably. As a result, where guidance distinguishes between tangible natural resource held for conservation that are recognized from those that are not, such as in the disclosure requirements, this Standard refers to the items which meet the asset recognition criteria as 'recognized tangible natural resources held for conservation'.

Subsequent Expenditures on Unrecognized Tangible Natural Resources

BC26. The IPSASB noted that, in IPSAS 45, the accounting for subsequent expenditures on heritage property, plant, and equipment is driven by whether the subsequent expenditure meets the recognition principles in IPSAS 45, and that this assessment is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. The IPSASB applied the same principle to subsequent expenditures relating to unrecognized tangible natural resources held for conservation in general and developed the guidance in paragraph 16.

Measurement (paragraphs 17–42)

BC27. To operationalize the principles from IPSAS 46, *Measurement*, and to be consistent with the standards on other tangible assets such as IPSAS 45, the IPSASB proposed that the measurement of a tangible natural resource held for conservation at initial recognition should be determined based on whether or not control of the asset was obtained as the result of an event that is a transaction in an orderly market. Tangible natural resources held for conservation which were recognized as the result of an event that is not a transaction in an orderly market, which could include a non-exchange transaction, would be recognized at their deemed cost (current value). In contrast, resources recognized as the result of an exchange transaction in an orderly market would be recognized at cost.

BC28. The IPSASB noted that it is more likely for a tangible natural resource held for conservation to be recognized from an event that is not a transaction in an orderly market, such as non-exchange transactions or the exercise of sovereign powers. In such cases, as there will be no direct cost information available, such assets will need to be initially measured at deemed cost. While the acquisition of tangible natural resources held for conservation in an exchange transaction is possible, such transactions are expected to be rare in the public sector. Based on these observations, the measurement guidance was drafted in a different order to focus on the initial measurement of events which are not a transaction in an orderly market.

BC29. For subsequent measurement of tangible natural resources held for conservation, the IPSASB decided to leverage the subsequent measurement guidance from IPSAS 45 and allow an entity to subsequently measure the asset using either the historical cost model or a current value model, independently of whether it was initially measured at cost or deemed cost.

BC30. The IPSASB noted that a tangible natural resource held for conservation will be held for its operational capacity. While the conservation of a tangible natural resource may indirectly result in economic benefits to a jurisdiction in the form of increased tourism or donations, the intent of the conservation effort is not to directly generate future economic benefits, such as a financial return. As a result, IPSAS 51 requires the current value of a tangible natural resource held for conservation to be measured at its current operational value.

Depreciation

BC31. The IPSASB noted that the tangible natural resources held for conservation are not typically used or consumed in a manner similar to tangible assets within the scope of other IPSAS Standards. As a result, the IPSASB decided to include a rebuttable presumption that tangible natural resources held for conservation generally have an indefinite useful life and are typically not depreciated. The IPSASB developed guidance on the assessment of whether a tangible natural resource held for conservation has an indefinite or finite life, as well as guidance on the depreciation of a resource that clearly has a finite useful life, based on guidance from IPSAS 45, tailored for conservation.

Derecognition (paragraphs 43–46)

BC32. The IPSASB decided to leverage the guidance from IPSAS 45 when developing the guidance on the derecognition of tangible natural resources held for conservation. The IPSASB also considered whether specific guidance on the sale and leaseback of tangible natural resources held for conservation should be developed but noted that such scenarios are expected to be exceptionally rare in practice. Furthermore, entities can leverage the general guidance on sale and leaseback transactions from IPSAS 43, *Leases*, if such situations do occur, so no specific guidance was needed.

Reclassification (paragraphs 47–50)

BC33. A public sector entity's primary reason for holding a tangible natural resource held for conservation may change due to, for example, management decisions or changes in facts and circumstances. The IPSASB developed guidance on the reclassification of an asset into and out of the scope of IPSAS 51 based on the principles on reclassifications in IPSAS 16—i.e., account for the asset using the previous IPSAS Standard up until the reclassification, then upon reclassification, account for the asset using the IPSAS Standard applicable to the reclassified asset at its then carrying amount.

BC34. Revaluation surpluses may arise when an entity applies the current value model in IPSAS 45 or IPSAS 51. The guidance on reclassification noted that revaluation surpluses are only reclassified if they are applicable and identifiable. When the current value model is applied to assets within the scope of IPSAS 45 and IPSAS 51, revaluation increases and decreases relating to individual assets within a class of assets must be offset against one another within that class, and an entity is required to disclose the sum of all revaluation surpluses or revaluation deficits for individual assets within the class. If a specific part of an asset is reclassified, the revaluation surplus or deficit associated with that specific part may not be identifiable.

Presentation (paragraphs 51–71)

BC35. The IPSASB decided to incorporate the disclosure proposals for recognized tangible natural resources from the CP, which are broadly consistent with the disclosure requirements from IPSAS 45.

BC36. In addition, when the IPSASB developed the CP, it had also proposed the following financial statement disclosures for unrecognized natural resources to address both the accountability and decision making objectives for financial reporting in the public sector:

- (a) Qualitative disclosures for a natural resource which meets the definition of an asset but could not be recognized due to the inability to measure the resource reliably. These disclosures focused on explaining the difficulties in obtaining a reliable measurement and the significance of the natural resource to the delivery of the entity's objectives;
- (b) Qualitative disclosures regarding its responsibilities relating to a natural resource, regardless of whether the resource is recognized; and
- (c) Qualitative disclosures on unrecognized natural resources that do not meet the definition of an asset but are important to an understanding of the entity's finances or delivery of services.

BC37. The IPSASB decided to retain the proposed disclosures noted in paragraph BC36(a), as the required information is expected to be readily available to an entity. The proposed disclosure in paragraph BC36(b) was also retained, as it relates to potential obligations which are similar in nature to contingent liabilities or potential obligations from pledges, rather than the underlying unrecognized tangible natural resource held for conservation.

BC38. Respondents to the CP were particularly concerned by the requirements in paragraph BC36(c) and noted that such disclosures in the financial statements would likely not be auditable. As a result, the IPSASB decided to clarify that only information regarding tangible natural resources held for conservation that meet

the definition of an asset is to be disclosed in the financial statements. Items which do not meet the definition of an asset are not covered by any requirements within this Standard.

- BC39. The IPSASB also noted that for tangible natural resources held for conservation which are subject to depreciation, due to uncertainties in the estimation of their useful lives and residual values, there could be situations where such resources continue to meet the asset recognition criteria but are fully depreciated. Similar to fully depreciated property, plant, and equipment, paragraph 59 was added to encourage entities to disclose the gross carrying amount of any fully depreciated tangible natural resources held for conservation.

Disclosure of Information Regarding Rare or Endangered Tangible Natural Resources

- BC40. In some situations, the disclosure of information regarding rare or endangered tangible natural resources held for conservation, regardless of whether they are recognized, may lead to their further endangerment or degradation. For example, disclosing information on the quantity and location of endangered species may lead to their illegal poaching. To address this concern, the IPSASB decided to allow an entity to limit the disclosure of such information. This approach is similar to IPSAS 19, which has an exemption from disclosing information which may prejudice an entity's position in a dispute with other parties.
- BC41. The IPSASB noted that it may be difficult for an entity to determine whether a resource is rare or endangered. As a result, the IPSASB provided guidance on what is considered rare or endangered and noted that in practice, the determination of whether a resource is rare or endangered could be based on designations made by third parties such as international organizations or government entities.

Effective Date and Transition (paragraphs 72–78)

- BC42. The IPSASB noted full retrospective application of this Standard might lead to some scenarios where an entity would need to account for tangible natural resources held for conservation which have been derecognized prior to the date of initial application. To provide transitional relief, the IPSASB decided that an entity could elect to apply this Standard using a modified retrospective approach and only recognize tangible natural resources held for conservation which meet the asset recognition criteria on the date of initial application. The IPSASB also considered allowing a prospective transition approach but noted that as many tangible natural resources held for conservation would have been controlled by an entity in historical periods, a large percentage of these resources would not be recognized if a prospective approach was used. As a result, only the full retrospective or modified retrospective approaches were included in this Standard.
- BC43. In response to feedback on ED 92, the IPSASB also clarified that if a tangible natural resource held for conservation cannot be recognized because its current value cannot be reliably measured upon the initial application of this Standard, the guidance in paragraphs 12 and 68 are applicable and only disclosures are required until the resource becomes reliably measurable.
- BC44. The IPSASB initially considered whether this Standard should be applied together with IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, and *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*. However, as the guidance in these pronouncements is not related from a technical perspective and their application would not impact the implementation of this Standard, the IPSASB decided it was unnecessary to require the application of this Standard at the same time as the application of IPSAS 50 and the amendments to IPSAS 12.

Application Guidance (Appendix A)

Tangible Natural Resources Held for Conservation

- BC45. Based on the clarified scope as explained in paragraph BC11, the IPSASB decided to provide additional application guidance to explain the concept of conservation and that whether a tangible natural resource is within the scope of this Standard will depend on an entity's primary intended purpose of holding the resource.

The IPSASB also decided to clarify in the application guidance that the term conservation and preservation generally refer to the same concept but for the purposes of this Standard, the term conservation is used.

- BC46. The IPSASB also observed that some heritage assets as described in IPSAS 45 could have similar characteristics as tangible natural resources held for conservation. While the accounting for heritage assets within the scope of IPSAS 45 and tangible natural resources held for conservation are similar, to help distinguish between these assets, the description of heritage assets in IPSAS 45 was amended to remove references to environmental and natural features. Paragraph AG4 was also developed to clarify that although certain heritage assets may have some of the characteristics of a tangible natural resource held for conservation, they are not within the scope of this Standard as they do not fully embody all of the characteristics required to meet the definition of a tangible natural resource held for conservation (i.e., they are not both naturally occurring and held primarily for conservation).

Identification of Potential Tangible Natural Resources

- BC47. In response to the CP, some constituents raised concerns regarding whether it was necessary to perform a detailed exercise to create an inventory of all naturally occurring items in a jurisdiction in order to identify all potential tangible natural resources held for conservation. These respondents noted that such an exercise would be extremely costly, even if the resulting recognition, measurement, display, and disclosure impact in the GPFS will be minimal. When this Standard was developed, the IPSASB noted that the definition of tangible natural resources held for conservation in paragraph 8, along with the related application guidance in paragraph AG11 of the Standard, would limit the potential tangible natural resources held for conservation to naturally occurring items that are subject to a detailed management plan demonstrating how such items would provide service potential for the entity. In addition, Section B.1 of the Implementation Guidance was developed to explain how an entity can effectively identify all potential tangible natural resources held for conservation without individually considering each naturally occurring item in the jurisdiction.

Recognition upon Changes in Facts and Circumstances

- BC48. The IPSASB noted that a tangible natural resource held for conservation which was initially not recognized as it could not be reliably measured could subsequently become measurable due to changes in facts and circumstances. The IPSASB considered developing guidance specific to such changes but noted that no additional guidance was required, as such scenarios are already addressed by IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*. As a result, the IPSASB decided to only include application guidance signposting to IPSAS 3 when such changes in facts and circumstances occur.

Amendments to Other IPSAS Standards (Appendix B)

- BC49. Based on the guidance in this Standard, the IPSASB decided to amend certain presentation requirements in IPSAS 1, *Presentation of Financial Statements*, the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, as well as certain exemptions in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. These amendments relate to the presentation of tangible natural resources held for conservation as a separate line item in the statement of financial position, excluding tangible natural resources held for conservation within the scope of this Standard from the scope of IPSAS 12, IPSAS 16, IPSAS 27, and IPSAS 45, and exemptions regarding the recognition and measurement of tangible natural resources held for conservation in an entity's transitional IPSAS financial statements. The guidance in IPSAS 3 regarding the initial application of a policy to revalue assets in accordance with IPSAS 31, *Intangible Assets*, or IPSAS 45 was also amended to apply to revaluation of assets within the scope of IPSAS 51.

Implementation Guidance and Illustrative Examples

- BC50. The IPSASB decided to add implementation guidance and illustrative examples to IPSAS 51 for topics that are complex and potentially difficult to apply in practice, are an area of concern for constituents, or would benefit from additional non-authoritative guidance.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 51.

Section A: Scope

A.1 Determination of Whether an Item Falls Within the Scope of IPSAS 51 (Paragraphs 3–7 and AG3–AG4)

When is a tangible natural resource within the scope of IPSAS 51 and how is conservation different from the uses of tangible assets within the scope of other IPSAS?

- IG1. IPSAS 51 defines a tangible natural resource held for conservation as a naturally occurring tangible asset that is managed to prevent its degradation, and an item which meets this definition is accounted for within the scope of the Standard. The determination of which IPSAS Standard is applicable is based on the entity's primary intended purpose for holding the item, which is consistent with the scoping assessment in all other IPSAS Standards on tangible assets.
- IG2. Conservation is distinct from the uses of tangible assets within the scope of other IPSAS, as these other Standards typically address the immediate or near-term use of an asset to provide service potential or economic benefits to the entity. In addition, these other uses often lead to the consumption of an asset, whereas conservation usually involves avoiding or limiting the use of a resource in a way which leads to their consumption.

How would an entity determine if a tangible natural resource is held for conservation?

- IG3. There may be situations where clear legislation is in place requiring the conservation of a tangible natural resource by restricting its use. In other situations, it may not be clear whether a tangible natural resource is held primarily for conservation purposes, requiring an entity to exercise judgment to determine its primary intended purpose for holding the resource. For example, an entity may have the intention to conserve a tangible natural resource without any legislation in place to restrict access to the resource or its use. In these situations, the tangible natural resources may be primarily held for conservation purposes but could also be used to provide ancillary services.
- IG4. Without clear legislation, it may be necessary to analyze the details of the relevant conservation program to determine whether a tangible natural resource is held primary for conservation. Some factors to consider include:
- (a) The intended purpose of the conservation program: The specification to protect a particular resource, such as a particular species or group of species, is a strong indicator that the tangible natural resource is held for conservation. In contrast, programs which are more concerned with enhancing or promoting the use of a resource, such as the maintenance of green spaces to attract more visitors, may indicate that conservation is not the primary objective;
 - (b) The nature and intent of program activities: Conservation activities will vary depending on the facts and circumstances for each resource. For some mature tangible natural resources, a conservation program may simply focus on limiting the impact of human activities on the resource. In other situations, an entity may need to perform activities such providing feed or treatment for diseases to actively prevent the degradation of a resource. Regardless of the specific activities, those which are performed to maintain the state of a tangible natural resource are indicative of conservation; and
 - (c) The existence of a significant profit element: Some tangible natural resources held for conservation may be used to earn ancillary revenues to partially recover the costs of maintaining the resource. However, in some situations, a tangible natural resource may be managed to earn a profit. A program

which primarily focuses on the generation of revenues or profits may indicate that the tangible natural resources are part of plant, property and equipment or inventory rather than held for conservation.

How would an entity assess if a resource that is held for multiple reasons is within scope of IPSAS 51?

- IG5. In practice, some resources are held for multiple reasons or uses, and the determination of whether an asset is primarily held for conservation requires judgment, considering the relevant facts and circumstances specific to the use or reason for holding each asset.
- IG6. In some situations, specific parts of a resource may be held for different purposes. These specific parts are different units of account, which are assessed individually to determine if they are within the scope of IPSAS 51. Such a situation could occur if, for example, a part of a forest is managed and harvested for agricultural purposes while another part of the same forest is held for conservation.
- IG7. In other situations, the entire asset could be held for different uses or purposes, and the entity will need to apply judgment to develop a systematic or logical way to assess which use or reason for holding the asset is more significant. For example, an entity may hold land that is subject to a conservation program, to conserve the land's natural features for ecological reasons. The land is accessible to the public via a large network of hiking tracks to allow the public to experience the natural features of the conserved land. If the entity determines that the land is a single unit of account, the entity would need to apply judgment to determine whether the primary purpose for holding the land is conservation, and therefore within the scope of IPSAS 51. There may be different methods to support the determination of the land's primary purpose.

A.2 Unextracted Subsoil Resources (Paragraphs 3–7, and AG19)

Can unextracted subsoil resources be within the scope of IPSAS 51 and be recognized as assets in the financial statements?

- IG8. Generally, no. Unextracted subsoil resources, such as minerals or petroleum deposits, are typically extracted for the future economic benefits from their use or sale, rather than held for the service potential from their conservation. As a result, these resources are not within the scope of IPSAS 51.
- IG9. Furthermore, as noted in paragraph AG19, for some naturally occurring items, there will be uncertainty over the existence, quantity, and quality of the item until it is extracted, and this uncertainty impacts whether the item can be considered a resource. Because unextracted subsoil items are usually located deep underground, an entity is unlikely to be able to establish, using currently available scientific know-how and technological means, the existence, quantities, and quality of these items with the degree of certainty needed for asset recognition prior to their extraction.

Section B: Definitions

B.1 Identification of Tangible Natural Resources Held for Conservation (Paragraphs 8 and AG9)

Does an entity applying IPSAS 51 need to consider whether all tangible naturally occurring items within its jurisdiction are tangible natural resources held for conservation?

- IG10. No. To meet the definition of a tangible natural resource held for conservation in paragraph 8 of IPSAS 51, a naturally occurring item must be a tangible asset and be subjected to conservation activities. It is unlikely that all tangible naturally occurring items within a jurisdiction would meet the definition of an asset, as they are unlikely to be resources if they are not actively managed or conserved. As explained in paragraph AG9 of IPSAS 51, this criterion is typically satisfied when an entity has a plan demonstrating how the naturally occurring item can provide service potential or generate economic benefits, the entity's ability and intent to carry out the plan, and whether the entity will obtain the resources necessary to carry out this plan. Therefore, one acceptable approach to ensure that the analysis of potential tangible natural resources held for

conservation is complete is to consider programs relating to the conservation of naturally occurring items. By focusing on such programs, an entity is not required to individually analyze each naturally occurring item within its jurisdiction. Some tangible natural resources may be subject to other programs which do not relate to conservation. Such programs could indicate that these resources are within the scope of other IPSAS Standards.

Section C: Recognition

C.1 Determination of Control (Paragraphs AG21–AG23)

What key considerations should an entity evaluate when assessing whether they control certain types of tangible natural resources held for conservation such as water and living resources?

- IG11. In general, the control of a tangible natural resource held for conservation can be assessed based on the indicators listed in paragraph AG22 of IPSAS 51. Sometimes, a tangible natural resource held for conservation may consist of multiple units of account due to the different characteristics and risks associated with the specific parts of the resource. In such cases, the assessment of control is performed separately for each unit of account.
- IG12. For a tangible natural resource held for conservation, the indicators of control are often directly impacted by the nature of the resource, as well as laws and regulations that are specific to the resource. The following discussion highlights some of the more prevalent factors that should be considered when assessing control over water and living resources held for conservation:

Water

- IG13. Generally, the physical movement of free-flowing water such as oceans, seas, lakes, and rivers cannot feasibly be controlled. Therefore, it is unlikely that an entity is able to demonstrate control over these bodies of water.
- IG14. Water that is physically housed in a managed environment could potentially be controlled. For example, some underground aquifers located in a jurisdiction can act as naturally occurring reservoirs holding ground water. An entity could demonstrate control over the water in such aquifers when:
- (a) The entity has legal ownership of the aquifer and its contents in accordance with the applicable laws and regulations, and such legal ownership confers enforceable rights to the service potential embodied in the water;
 - (b) The entity has the means to manage the volume of water actively to ensure that it is available for meeting the entity's conservation objectives. This is typically achieved by having an appropriate structure to house the water and control its flow; and
 - (c) The entity can restrict others from accessing the water. Such restrictions can consist of physical barriers such as fences, legislative mechanisms which legally prohibit other parties from access, the use of security personnel to prevent unauthorized access to the water, or a combination of the above.

Living Resources

- IG15. Depending on the applicable laws and regulations, a public sector entity may have legal ownership of the living resources located within its jurisdiction, and such legal ownership could lead to an enforceable right to the service potential embodied in the resources. However, this assessment is not always straightforward. An entity may have difficulties demonstrating control over living resources that can move about, such as fish and animals, without some means to limit their movement to an area that is controlled by the entity. For example, even with physical barriers in place, it may not be feasible to effectively control the movements of certain animals. Since these animals can freely roam out of the areas controlled by an entity into neighboring

jurisdictions, it would be difficult for any entity to assert control. In contrast, it is generally easier to demonstrate control over plants, as these resources cannot relocate on their own.

- IG16. Control over living resources also requires the ability to prevent others from accessing the resource. Like water, restricting access to living resources can be implemented through physical means such as barriers and fences, legislation prohibiting the use of the living resource, using security personnel to guard the living resources, or a combination of the above.
- IG17. An entity's ability to direct the conservation of a living resource in a manner it sees fit is a strong indicator of control. In the most extreme case, the unfettered ability to sell a living resource held for conservation for cash or other resources would be a strong indicator of control over the resource. Similarly, the ability to freely change the primary intended use of a living resource held for conservation (e.g., from conservation to one's own use or for sale) is another strong indicator of control. However, in these scenarios, an entity should carefully consider whether these living resources are within the scope of IPSAS 51, as items that are used in production or held for sale are likely considered inventory within the scope of IPSAS 12 or biological assets within the scope of IPSAS 27.

C.2 Subsequent Expenditures Incurred to Conserve a Tangible Natural Resource (Paragraphs 10 and 14–16)

How should an entity account for subsequent expenditures incurred to conserve a tangible natural resource?

- IG18. The recognition principle in paragraph 10 of IPSAS 51 is applicable to the expenditures incurred for the conservation of tangible natural resources. The resulting accounting is consistent with the accounting for subsequent expenditures relating to property, plant, and equipment in IPSAS 45:
- (a) Expenditures which are incurred to maintain the current state of a tangible natural resource held for conservation are similar to maintenance expenses for property, plant, and equipment. These expenditures are recognized as expenses in surplus or deficit as incurred; and
 - (b) Expenditures that result in incremental service potential are recognized as an asset based on the recognition principle in paragraph 10. Depending on the nature of the expenditure and the appropriate unit of account, these expenditures could result in an increase in the carrying amount of an existing tangible natural resource held for conservation, similar to additions in IPSAS 45, or the recognition of a separate asset. For example, an entity that has impaired the carrying amount of a habitat asset because of physical damage may subsequently restore it by reintroducing native flora and fauna, then managing their growth until the habitat is comparable to a condition had the damage not occurred. As these restoration activities would result in an increase to the service potential of the habitat back to the levels before the impairment, the cost of introducing the flora and fauna and managing their growth would be capitalized.

C.3 Change in the Primary Reason for Holding an Asset (Paragraphs 47–50)

How would an entity account for land that is subject to “rewilding”?

- IG19. “Rewilding” is the act of limiting human influence in an area with the aim of restoring the naturally occurring processes and biodiversity in that environment. In general, a change in an entity's primary intended reason for holding a tangible natural resource may lead to a change in which IPSAS Standard is applicable to the resource. See paragraphs 47–50 on Reclassification for details. In the context of rewilding land for the purpose of conservation, such a change may occur when there is evidence that an entity has ceased to use the land as an investment property or property, plant, and equipment. A change in use may be evidenced by events such as ending the occupation or use of the land, termination of a lease of the property to another party, or the removal of structures on the land.

- IG20. Consistent with the guidance in paragraph 49, the net carrying amount of the land then becomes the carrying amount of the tangible natural resource held for conservation within the scope of IPSAS 51 upon the change in use.
- IG21. As noted in paragraph 48 of IPSAS 51, the entity should also consider if the change in use meets one of the indicators of impairment in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, or IPSAS 26, *Impairment of Cash-Generating Assets*.

C.4 Reassessment of the Unit of Account Due to Changes in Facts and Circumstances (Paragraphs AG2–AG4)

Could a change in the primary reason for holding an asset or changes in other facts and circumstances result in a reassessment of the unit of account?

- IG22. Yes. As noted in Implementation Guidance C.3, a change in primary reason for holding an asset could result in a reclassification and, depending on whether the reclassification applies to the entire resource or a specific part of the resource, such a change could result in the need to reassess the unit of account for both the part of the resource with the change and the remaining portion of the resource.
- IG23. For example, an entity obtains control of a conservation area in a non-exchange transaction. This conservation area consists of land and a native forest within the location, which are accounted for as two units of account—one for the land and another for the native forest. As the entity holds the area primarily for conservation, the two assets were initially measured at their current operational values. The entity has also decided to subsequently measure these assets at their current operational values, as using the current value model would result in more useful information for users of the financial statements.
- IG24. Sometime later, approximately a quarter of the conservation area was destroyed in a forest fire. As a result of the significant physical damage to the forest, the entity applied IPSAS 21 and impaired the unit of account consisting of the native forest to their recoverable service amounts.
- IG25. The entity also determined that it is not feasible to restore the areas that have been damaged and made a formal decision to use this situation to clear the burned area and use the vacant land for the construction of administrative buildings. The entity determined that this significant change in the use of the vacant land did not result in an impairment loss, as the change in use would not have an adverse effect on the entity's land assets.
- IG26. Due to the vacant land's new primary intended use as property, plant and equipment, that portion of the land is no longer part of the same unit of account as the land held for conservation. As a result, the entity applies the guidance on reclassification in paragraphs 47–50 of IPSAS 51 to reclassify the vacant land to an asset within the scope of IPSAS 45.

Section D: Measurement

D.1 Determination of Current Operational Value (Paragraphs 17, 26–30, and AG25–AG29)

How would an entity determine the current operational value for a tangible natural resource held for conservation?

- IG27. In general, current operational value (COV) can be measured using a market approach or a cost approach. The use of a market approach does not necessarily result in a fair value measurement, as market prices can be used to estimate an asset's entry price.
- IG28. For tangible natural resources held for conservation, which are held for their operational capacity, an active market with transactions involving an identical asset may not be available. However, an entity could still apply the market approach by using the price from an orderly transaction involving a similar asset. For example, an entity holding a forest for conservation may estimate its COV using an appraisal value of a similar land

and adjusting the value for specific differences in characteristics that may impact its service potential, such as differences in the size of the forested area or restrictions in how the forested area can be used.

- IG29. If an active market for similar assets does not exist, an entity could also estimate COV using a cost approach by estimating the cost of developing a similar asset. Continuing with the forest example, the entity could estimate the forest's COV by accumulating the estimated costs of acquiring, planting, and growing saplings into mature trees, as well as the value of the land if it is not a separate unit of account.

D.2 Inability to Reliably Measure Current Value (Paragraph 11)

When may an entity conclude that the current value of a tangible natural resource held for conservation cannot be reliably measured?

- IG30. The use of estimates is an essential part of the accrual basis of accounting, and there will often be uncertainty associated with the measurement of a tangible natural resource held for conservation. In some situations, the level of uncertainty in an estimate is so large that the relevance and faithful representativeness of a measure is questionable, even if disclosures are provided to explain the estimation techniques applied by the entity. Under these circumstances, the current value of the tangible natural resource held for conservation cannot be reliably measured.
- IG31. The following factors may indicate that a tangible natural resource held for conservation cannot be reliably measured:
- (a) There is a significantly wide range of values that could be reasonable;
 - (b) There is no reasonable way to assess the probabilities of various estimates; or
 - (c) There is no reasonable methodology or observable input available to measure the resource.

D.3 Exchange of Assets

How should an entity measure a tangible natural resource held for conservation acquired through a non-monetary transaction such as an exchange of assets?

- IG32. As required by paragraphs AG31–AG33 of IPSAS 51, a tangible natural resource held for conservation that is acquired in a non-monetary transaction is typically measured at the current value of the asset(s) given up at the time of acquisition if it can be reliably measured. If the current operational value of the acquired tangible natural resource held for conservation is more evident, the acquired resource is measured at this current operational value. Such a situation could occur if, for example, an entity gives up a specialized asset that does not have an active market in exchange for a tangible natural resource held for conservation that is commonly purchased for conservation purposes.
- IG33. There are two exceptions to the requirement to measure a tangible natural resource held for conservation acquired through a non-monetary transaction at current value:
- (a) If both the current operational value of the tangible natural resource held for conservation acquired and the current value of the asset(s) given up cannot be reliably measured, the acquired resource is measured at the carrying amount of the asset(s) given up; and
 - (b) If the exchange transaction lacks commercial substance, the acquired resource is also measured at the carrying amount of the asset(s) given up.
- IG34. Paragraph AG32 provides guidance on how to determine if an exchange transaction has commercial substance. Generally, an exchange transaction has commercial substance if:
- (a) The configuration (risk, timing, and amount) of the service potential of the acquired tangible natural resource held for conservation is different from the configuration of the cash flows or service potential

of the asset(s) given up, and this difference is significant relative to the current value of the asset(s) given up; or

- (b) The net change in the entity's operations resulting from the exchange is significant relative to the current value of the asset(s) given up.

IG35. Due to the specialized nature of tangible natural resources held for conservation, it may be evident that the acquisition of such an asset in a non-monetary exchange of assets has commercial substance without the need to perform a detailed numerical analysis. For example, if an entity gives up inventory to acquire a tangible natural resource held for conservation, the fact that items which were mainly held for their future economic benefits through sale were exchanged for a resource which is not expected to generate future cash flows could be sufficient to indicate that the transaction has commercial substance.

Section E: Display and Disclosure

E.1 Grouping of Disclosures (Paragraphs 52–71 and AG40–AG43)

Do IPSAS Standards require an entity to provide the disclosures that relate tangible natural resource held for conservation and other tangible natural resources within the scope of other IPSAS Standards in one note?

IG36. IPSAS Standards generally neither require nor prohibit an entity from grouping the disclosures of tangible natural resources within the scope of this and other IPSAS Standards into a single note. If an entity decides to group the disclosures, it needs to ensure that this grouping does not obscure the information presented. This is typically accomplished by reconciling the information disclosed in the note with the amounts that are included in the various financial statement captions which contain tangible natural resources.

IG37. The decision to group the disclosures of tangible natural resources together will depend on the entity's judgment on whether this results in more useful information for users of the financial statements compared to the potential costs of reorganizing the notes. When making this decision, the entity should consider the aggregation and disaggregation principles in IPSAS 1, *Presentation of Financial Statements*, as well as the requirements in IPSAS 18, *Segment Reporting*.

E.2 Disclosure of Stewardship Arrangements (Paragraphs 55 and 71)

What information regarding stewardship arrangements is required to be disclosed?

IG38. A public sector entity may enter into stewardship arrangements which confer certain rights and obligations related to a tangible natural resource held for conservation. Regardless of whether the related tangible natural resource held for conservation is recognized as an asset, the entity will need to consider the potential accounting and disclosure implications from the rights and obligations in its stewardship arrangements.

IG39. For example, certain treaties or legislation may grant rights to indigenous peoples to maintain and strengthen their relationship with resources that they have traditionally owned, or delegate conservation activities to a third party. Other arrangements may impose obligations or responsibilities, such as restrictions on the use of certain tangible natural resources held for conservation without the free, prior, and informed consent from indigenous peoples. These rights and obligations are required to be disclosed if their impact is material to the financial statements.

IG40. Some stewardship arrangements may also result in the recognition of an asset or liability that are outside the scope of IPSAS 51. For example, some arrangements may confer the right to a public sector entity to harvest or use a resource that is controlled by a third party, and such an arrangement may result in the recognition of an asset within the scope of IPSAS 31, *Intangible Assets*. Other arrangements may require a public sector entity to potentially provide funding or other support to a third party. For example, a public sector entity may be required to fund the restoration of certain resources in the event of a natural disaster. Such an

arrangement may result in the recognition or disclosure of an obligation as required by IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 51.

Introduction

IE1. These examples portray hypothetical situations illustrating how an entity might apply the requirements in IPSAS 51, *Tangible Natural Resources Held for Conservation*, to particular natural resources on the basis of the limited facts presented. The analysis in each example is not intended to represent the only manner in which the requirements could be applied, nor are the examples intended to apply only to the specific sector illustrated. Although some aspects of the examples may be presented in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 51.

Scope

IE2. Examples 1–2 illustrate the application of paragraphs 3–7 of IPSAS 51 on the scope of the Standard.

Example 1: Accounting for Physically Similar Assets that are Held for Different Reasons

IE3. A public sector entity controls two regions of forested land in its jurisdiction, Area A and Area B. Both regions have similar physical characteristics and were initially uncultivated forests containing the same species of flora and fauna. There is no legislation that explicitly dictates how Regions A and B are to be used, but the regions are managed in accordance with different programs that have been created by the entity.

IE4. In accordance with the entity's program, Area A is opened to visitors. The entirety of Area A has been landscaped or cleared to create hiking paths and campgrounds within the area, and the majority of the vegetation in the area has also been replaced with species that are deemed to have higher aesthetic value or are safer for visitors. Visitors can pay a nominal fee to reserve a specific campground, or they can enter and use the campgrounds that are available for free without a reservation. In addition, the entity has hired a team of security personnel to manage the campground operations.

IE5. In contrast, the entity has announced to the public that Area B is a reserve and constructed fencing to limit human access to the area. Unlike Area A, the flora and fauna in Area B have been left in their natural state. While the entity has also hired a team of security personnel to patrol Area B, this security team has been instructed to deter individuals from trespassing into the region.

IE6. The entity applies judgment to the facts presented in paragraphs IE3–IE5 and concludes that Area A and Area B appear to be held for different primary intended purposes despite the fact that both regions initially had similar physical characteristics. The entity notes that Area A is primarily managed for use by the public for camping and hiking, and the introduction of new plants to facilitate this use rather than the conservation of native species indicates that the region is not primarily held for conservation.

IE7. The entity also observes that, regardless of whether the restrictions on the access and use of Area B are self-imposed, the facts and circumstance support the conclusion that the primary reason for holding the asset is for conservation. As a result, the entity concludes that Area B is within the scope of IPSAS 51.

Example 2: Use of Natural Spaces as Infrastructure

IE8. A government entity has a "Rain Garden Program" in place to develop natural spaces in urban areas. These "rain gardens" are naturally occurring green spaces which have been augmented with planted trees and other vegetation to help reduce the risk of flooding in the area and are considered more desirable than traditional constructed infrastructure such as dikes and reservoirs.

IE9. Because these rain gardens accomplish the same objectives as constructed infrastructure, the government entity concludes that they are considered property, plant, and equipment within the scope of IPSAS 45. This

assessment is separate from the consideration of whether the land on which the rain garden is located is an asset.

- IE10. In some jurisdictions, the developed natural spaces such as the rain gardens in this example may be referred to as “modified natural assets”, “enhanced natural assets”, or “green infrastructure”. Regardless, the assessment of which IPSAS Standard to apply is based on the entity’s primary intended use of the item.

Measurement

- IE11. Example 3 illustrates the determination of the current operational value of a tangible natural resource held for conservation when its current operational value is required by paragraphs 17 and 26 of IPSAS 51.

Example 3: Determination of Current Operational Value

- IE12. A government entity obtains control of a 5,000-hectare plot of woodlands in its jurisdiction through a non-exchange transaction and has designated the forest and the land on which it is located as a ‘Conservation Area’ that is held primarily for conservation. As the conservation of the woodlands results in meeting the entity’s social and environmental objectives, the entity has concluded that the Conservation Area meets the definition of an asset. Since the asset was obtained in a non-exchange transaction, it is initially measured at deemed cost (which is current operational value (COV) in the context of tangible natural resources held for conservation), as required by paragraph 17 of IPSAS 51.

Case A – Valuation Performed by an External Valuation Specialist Using the Market Approach

- IE13. To measure the COV of the Conservation Area, the entity engaged a valuation specialist who conducted a valuation in accordance with an internationally recognized valuation framework that is commonly used for property valuation.
- IE14. The valuation specialist used data from historical purchases of forests held specifically for conservation, adjusted for the following factors:
- (a) Differences in the location and size of the comparable forests;
 - (b) Differences in the species within the conservation area and the comparable forests; and
 - (c) Average age of plantation.

The valuation specialist also compared the resulting estimate with the value of physically similar forests that are held for the production of timber as a high-level check for the reasonability of the estimate, taking into account the difference purposes for holding the asset. Based on the above valuation approach, the specialist estimated a COV of CU28 million on the date when the entity obtained control of the Conservation Area.

- IE15. The entity considers the disclosure requirements for current value measurement in paragraphs 61–67 of IPSAS 51. In addition, depending on the materiality of the Conservation Area, the valuation could be a key source of estimation uncertainty due to issues such as limited or inconsistent historical data or the subjectivity inherent in the adjustments noted in paragraph IE14. As a result, the entity also considers the disclosure requirements in paragraphs 140–148 of IPSAS 1, *Presentation of Financial Statements*.

Case B – Estimation of COV Based on the Cost to Develop a Similar Asset

- IE16. Alternatively, the entity can estimate the Conservation Area’s COV based on the cost to develop a similar forest. While it may be counterintuitive to estimate the cost to develop a tangible natural resource held for conservation, IPSAS 46, *Measurement*, allows the use of the cost to develop a *similar* asset. Therefore, an estimate of COV based on the cost to develop a physically similar forest as the Conservation Area is acceptable.

- IE17. Based on this approach, the entity noted that it will take approximately 20 years to grow a forest comparable to the one in the Conservation Area. In addition, the entity estimated forestation costs of CU4,000 per hectare based on the costs for site preparation, the acquisition cost of seedlings of flora to be planted, and the present value of the labor and material costs to plant and maintain the trees during their 20-year growth period. In addition, the entity estimated that the cost of a plot of land with similar physical characteristics is approximately CU1,500 per hectare. Based on these estimates of the costs per hectare, the entity estimated a COV of approximately CU27.5 million.
- IE18. As noted in paragraph IE15, as the above estimation of the COV could be a key source of estimation uncertainty, the entity will need to consider the disclosure requirements in paragraphs 140–148 of IPSAS 1 in addition to the disclosure requirements for current value measurement in paragraphs 61–67 of IPSAS 51.

Disclosure of Unrecognized Tangible Natural Resources Held for Conservation

- IE19. Example 4 illustrates the application of paragraphs 12 and 68 of IPSAS 51 on the disclosure of a tangible natural resource held for conservation which meets the definition of an asset but is not recognized as it cannot be reliably measured.

Example 4: Unused Publicly Owned Land

- IE20. A public sector entity obtains control of a plot of land in an uninhabited area through the exercise of its sovereign powers. Due to the remote location of the land and the characteristics of its flora and fauna, the entity plans to conserve the habitats in the area and concludes that the land and its habitats (collectively, the reserve) meet the definition of a tangible natural resource held for conservation. Based on these facts, the entity concludes that the reserve is within the scope of IPSAS 51 and should be initially measured at its deemed cost (current operational value) in accordance with paragraph 17.
- IE21. To determine the current operational value of the reserve, the entity retained a number of valuation specialists to assist in the estimation process. Due to the remote location of the land and the difficulties in valuing its flora and fauna, the entity and the valuation specialists agreed that there is no reasonable basis on which to measure the reserve's current operational value.
- IE22. As a result, the entity concludes that the reserve is an asset that cannot be reliably measured. Therefore, the entity applies the disclosure requirements in paragraph 68 of IPSAS 51 and discloses:
- (a) The location and physical characteristics of the reserve;
 - (b) An explanation of the difficulties in obtaining a reliable measurement of the reserve's current value; and
 - (c) The significance of the reserve in relation to the delivery of the entity's objectives.

Transition

- IE23. Example 5 illustrates the potential similarities and differences resulting from the application of IPSAS 51 using the modified retrospective transition approach and the full retrospective approach.

Example 5: Differences Between the Modified Retrospective and Full Retrospective Transition Methods

(Note: To isolate the impact of the transactional provisions, this example assumes that other than the events or transactions specified below, there are no other transactions within the entity.)

- IE24. A central government entity with a December 31 year-end applies IPSAS 51 in year 20X4. The entity has elected to use the historical cost model and concluded that the tangible natural resource held for conservation in question has an indefinite useful life. i.e., it should not be depreciated.

IE25. When the country's constitution was established many years ago, the entity obtained control over a significant tangible natural resource held for conservation in its jurisdiction (Resource A). At the time, Resource A's current value was CU50 million. However, the entity did not consider recognition of an asset, as their accounting framework at the time did not have explicit guidance on the recognition of tangible natural resources held for conservation.

Case A – The Central Government Continues to Control the Resource on the Date of Initial Application

IE26. Since 20X2, the current value of Resource A has increased to CU70 million. The entity has continued to control Resource A throughout 20X2 to 20X4.

IE27. The entity considered the transitional requirements in paragraph 74 of IPSAS 51 and noted the following:

Modified Retrospective Approach (Paragraph 74(a))

IE28. Applying the guidance in paragraph 75, the date of initial application for the modified retrospective approach is January 1, 20X4. The modified retrospective approach requires the recognition of any tangible natural resources held for conservation that are controlled by an entity on the date of initial application at their current value. The cumulative effect of initially applying IPSAS 51 is recognized as an adjustment to opening accumulated surpluses or deficits.

IE29. As a result, the entity recognizes Resource A as an asset at CU70 million on January 1, 20X4 and adjusts its opening accumulated surpluses or deficits by CU70 million.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors (Paragraph 74(b))

IE30. If the entity applies IPSAS 51 in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained. This approach would result in the following:

- (a) Resource A would be recognized as an asset of CU50 million upon the establishment of the country's constitution; and
- (b) Because the entity elected to subsequently measure tangible natural resources using the historical cost model, on the date of initial application, Resource A would not be adjusted to CU70 million. The recognized asset and the opening accumulated surpluses or deficits would remain at CU50 million.

Case B - Resource was Sold Prior to the Date of Initial Application

IE31. In this case, the example facts outlined in paragraphs IE24–IE25 continue to be applicable. However, during 20X2, the entity classified Resource A as an asset held for sale and sold it for cash consideration of CU70 million. As the resource was previously unrecognized, there was no carrying amount to offset the consideration received, and the sale resulted in a gain of CU70 million.

IE32. Prior to the application of IPSAS 51, the entity's statement of financial position as at the December 31, 20X2 would have consisted of cash and accumulated surpluses or deficits of CU70 million.

IE33. The entity considered the transitional requirements in paragraph 74 of IPSAS 51.

Modified Retrospective Approach (Paragraph 74(a))

IE34. The modified retrospective approach does not require the reconsideration of any tangible natural resources held for conservation that were no longer controlled on the date of initial application (January 1, 20X4). As a result, the entity does not need to make any adjustments to its opening statement of financial position.

Retrospective Application in Accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors (Paragraph 74(b))

- IE35. If the entity applies IPSAS 51 in accordance with IPSAS 3, it would be required to consider the initial recognition of Resource A at the time control was obtained and its subsequent sale in year 20X2. This approach would result in the following:
- (a) Resource A would have been recognized as an asset valued at CU50 million when the country's constitution was established. Since the 20X4 financial statements only include comparative information for the 20X3 year, this CU50 million adjustment will only be reflected in the 20X3 opening accumulated surpluses or deficits;
 - (b) In year 20X2, the sale of Resource A would have resulted in a gain of only CU20 million (CU70 million cash consideration less Resource A's carrying amount of CU50 million). Since the entity is only presenting comparative information for the 20X3 year, this CU20 million gain will only be reflected in the opening accumulated surpluses or deficits in the 20X3 financial statements; and
 - (c) Although the gain in year 20X2 is different from the gain recognized before the application of IPSAS 51, it should be noted that the accumulated surpluses or deficits on January 1, 20X3 continue to be CU70 million (consisting of CU50 million from the initial recognition of Resource A and the gain of CU20 million from the sale of the resource).

TANGIBLE NATURAL RESOURCES HELD FOR CONSERVATION

COMPARISON WITH GFSM 2014

The following data recognition and measurement requirements in IPSAS 51 are aligned with those in Government Finance Statistic Manual 2014 (GFSM 2014):

- Both IPSAS 51 and GFSM 2014 require the recognition and measurement of tangible natural resources held for conservation, although GFSM 2014 does not report on these separately but includes them in the appropriate category of assets.
- IPSAS 51 requires initial measurement at deemed cost or cost depending on whether recognition resulted from a transaction in an orderly market and includes an accounting policy option that allows current operational value for subsequent measurement.

The following presentation requirements in IPSAS 51 are not aligned with those in GFSM 2014 even though recognition and measurement requirements are aligned:

- IPSAS 51 provides guidance on tangible natural resources held for conservation, while GFSM 2014 provides guidance on broader types of natural resources.
- IPSAS 51 requires the presentation of increases in the carrying amount in either net assets/equity or surplus or deficit, as appropriate. GFSM 2014 requires the presentation of changes in market value as other economic flows.
- IPSAS 51 requires the presentation of tangible natural resources held for conservation as a separate line item in the statement of financial position. GFSM 2014 includes tangible natural resources held for conservation within the appropriate category of nonfinancial assets in the balance sheet.

The following recognition and measurement requirements in IPSAS 51 need additional data to be collected for GFSM 2014 reporting:

- Where entities apply cost, deemed cost, or current operational value, there will be a need to collect additional data or separately identify data in the accounting system to be used for GFSM 2014 reporting.
- Where IPSAS 51 groups natural resources for presentation purposes, further breakdown by resource type (e.g., land, mineral and energy resources, and other naturally occurring assets) may be required for GFSM 2014 reporting.
- In GFSM 2014, assets are initially and subsequently measured at market value. Where current operational value is applied IPSAS-based values may closely approximate the market value required by GFSM 2014. However, preparers should assess whether adjustments are needed, for example, to remove ownership transfer costs or reflect exit-price assumptions where these are material.

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Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **International Influence – IASB projects and ASAF update**

Date: 28 May 2026

Prepared by: Nimash Bhikha

Through: Michelle Lombaard

Action Required

For Information Purposes Only

Purpose¹

1. The purpose of this agenda item is to provide the Board with an update on the International Accounting Standards Board's (IASB's) projects and upcoming Accounting Standards Advisory Forum (ASAF) discussions.
2. As per the XRB's [Statement of Intent](#), we enable trust and confidence in the external reporting system by setting high-quality standards that are internationally credible and locally relevant.
3. The XRB's proactive international engagement allows us to build credibility and influence both the international standard-setting agenda and the standards as they are set. the ASAF appointment provides an opportunity to positively influence IFRS international standards so that the New Zealand context is well considered early in their development.
4. We highlight this to the Board to allow board members to reach out to Nimash if they are interested in a project or if they have specific contributions to make in our preparation. In conjunction with our other outreach with stakeholders on the projects (including our Technical Reference Group) any comments will help shape our international influence.

Recommendations

5. We recommend the Board **NOTE** the update on the status of IASB's projects and ASAF discussions and **PROVIDE FEEDBACK**, where relevant. We invite the Board and any interested party to reach out should they want to provide input.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

IASB projects update

6. The following table outlines the IASB's current projects and status, with hyperlinks to the IASB's relevant project page.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
1	<p>Amendments to the Fair Value Option</p> <p>Standard-Setting Project</p> <p>XRB submitted comment letter: here</p>	IAS 28 <i>Investments in Associates and Joint Ventures</i>	<p>Narrow-scope amendments to broaden the scope of investments in an associate or joint venture that can be measured using the fair value option.</p> <p>The project aims to explore whether the fair value option could be made available to a broader scope of investments held by specified entities, to help reduce diversity in practice, particularly those in the insurance industry.</p>	Final Amending Standard – June 2026	<p>The IASB have analysed the feedback received on Exposure Draft and have made minor amendments to the proposals to respond to the feedback received.</p> <p>The IASB are planning to release their final amending standard to IAS 28 by the end of June 2026.</p> <p>We will consider the NZ amending standard equivalent to the IASB amending standard and seek the Board's approval at the August/October 2026 NZASB meeting.</p>
2	<p>Amortised Cost Measurement</p> <p>Standard-Setting Project</p>	IFRS 9 <i>Financial Instruments</i>	<p>Narrow-scope amendments to clarify and provide additional application guidance about requirements related to the effective interest method, and the modification and derecognition of financial instruments of financial assets.</p> <p>The project aims to respond to the PIR of IFRS 9 and reduce diversity in practice by clarifying amortised cost measurement requirements; and clarify intersections between amortised cost requirements and impairment requirements.</p>	Issue Exposure Draft – H2 2026	<p>The IASB are starting to deliberate issues within the scope of the project, noting challenges of balancing of costs and benefits for users around potential proposals.</p> <p>The IASB discussed how to clarify the requirements on accounting for subsequent changes to the effective interest rate (EIR) in response to stakeholder feedback.</p> <p>The IASB tentatively decided to amend paragraph B5.4.5 of IFRS 9 <i>Financial Instruments</i> to require that an entity adjust the EIR to account for a re-estimation of the contractual cash flows of a financial asset or a financial liability that provides consideration for the time value of money or for the credit risk.</p> <p>An Exposure Draft (in 2026) will be issued in line with their due process once all considerations are completed.</p>
3	<p>Business Combinations— Disclosures, Goodwill and Impairment</p> <p>Standard-Setting Project</p>	IFRS 3 <i>Business Combinations</i> IAS 36 <i>Impairment of Assets</i>	<p>New requirements and disclosures around performance of business combinations and impairment test amendments, to provide more useful information to users about business combinations, at a reasonable cost.</p> <p>The project aims to respond to the PIR of IFRS 3 and improve</p>	Decide Project Direction (Post-ED) – Q4 2026	<p>The IASB are continuing to re-deliberate the proposals following the Exposure Draft feedback, particularly around proposed exemptions from the proposed disclosures.</p> <p>A final amending standard will be issued in line with their due process once all considerations are completed.</p>

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
	XRB submitted comment letter: here		stakeholders' information around performance of acquisitions, impairment tests and amortisation of goodwill.		
4	Equity Method Standard-Setting Project XRB submitted comment letter: here	IAS 28 <i>Investments in Associates and Joint Ventures</i>	Narrow-scope amendments to clarify how to apply the equity method of accounting by answering application questions the IASB has received over several years, and new disclosure requirements that will enhance the information companies provide about these investments. The project aims to reduce diversity in practice by answering application questions on the equity method of accounting and improve the understandability of IAS 28.	Decide Project Direction (Post-ED) – Q4 2026	The IASB are continuing to re-deliberate the proposals following the Exposure Draft feedback, particularly around the measurement of the cost of an associate, accounting for additional purchases and transaction costs. A final amending standard will be issued in line with their due process once all considerations are completed.
5	Financial Instruments with Characteristics of Equity Standard-Setting Project XRB submitted comment letter: here	IAS 32 <i>Financial Instruments: Presentation</i> IFRS 7 <i>Financial Instruments: Disclosures</i>	New requirements and disclosures to improve underlying classification principles in relation to complex financial instruments which have both financial liability and equity characteristics. The project aims to improve the information about financial instruments and to address practical challenges.	Issue Final Amending Standard – 2027	The IASB have re-deliberated the proposals following the Exposure Draft feedback, particularly around the classification, presentation and disclosure requirements. A final amending standard will be issued in line with their due process once all considerations are completed.
6	Intangible Assets Research Project	IAS 38 <i>Intangible Assets</i>	Comprehensive review of intangibles accounting, by evaluating user needs for information about recognised and unrecognised intangible assets and considering whether to update the definition of an intangible asset, associated guidance and recognition criteria, by using test cases around cloud computing arrangements and agile software development.	Decide Project Direction (Pre-ED) – H2 2026	The IASB are still in the research phase and looking to better understand current practical issues around intangible assets. Once completed, the IASB will consider whether it can make discrete meaningful improvements to IAS 38 or whether more work is needed before considering any changes to the Standard.
7	Post-implementation Review of IFRS 16 Leases Standard-Setting Project XRB submitted comment letter: here	IFRS 16 <i>Leases</i>	Post-implementation review of leases accounting to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the new requirements were developed.	Project Summary and Feedback Statement – Q2 2026	The IASB have analysed the feedback received on the implementation of the standard and have decided standard setting is needed to address high on-going costs around accounting for leases. The form, nature and timing of any standard-setting activity is due to be considered alongside other IASB priorities. A feedback statement on the main messages received on the

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
					implementation of the standard will be prepared and published.
8	<p>Post-implementation Review of IFRS 9—Hedge Accounting</p> <p>Standard-Setting Project</p>	<p>IFRS 9 <i>Financial Instruments</i></p> <p>IFRS 7 <i>Financial Instruments: Disclosures</i></p>	<p>Post-implementation review of hedge accounting to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the new requirements were developed.</p>	<p>Issue Request for Information – Q4 2026</p>	<p>The IASB are preparing for the third stage of their phased PIR of IFRS 9 and will look to scope the request of information around the implementation of the new hedge accounting requirements in IFRS 9.</p> <p>Once completed, the IASB will release the RFI document for public feedback in 2026.</p>
9	<p>Provisions—Targeted Improvements</p> <p>Standard-Setting Project</p> <p>XRB submitted comment letter: here</p>	<p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i></p> <p>IFRIC 6 <i>Liabilities arising from Participation in a Specific Market</i></p> <p>IFRIC 21 <i>Levies</i></p>	<p>Narrow-scope amendments to the definitions within IAS 37 with the conceptual framework and improve the accounting for provisions around recognition, discount rate measurement and measuring costs to include in the provision.</p> <p>The project aims to respond to stakeholder concerns than IAS 37 generally works well in practice, other than some areas where there are uncertainty and diversity which could be improved.</p>	<p>Decide Project Direction (Post-ED) – Q2 2026</p>	<p>The IASB have re-deliberated the proposals following the Exposure Draft feedback, particularly around the recognition of legal obligations and constructive obligations, and costs to include in the measurement of a provision. The IASB are still to decide on the scope of the amendments to levies.</p> <p>A final amending standard will be issued in line with their due process once all considerations are completed.</p>
10	<p>Rate-regulated Activities</p> <p>Standard-Setting Project</p>	<p>IFRS 20 <i>Regulatory Assets and Regulatory Liabilities</i></p> <p>(replacing IFRS 14 <i>Regulatory Deferral Accounts</i>)</p>	<p>New principal accounting standard around accounting for rate-regulation impacts by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of financial performance.</p> <p>The project aims to inform investors about timing differences in rate-regulation and help investors understand which fluctuations in the relationship between a company’s revenue and expenses are caused by those differences in timing, so that investors could make better assessments of the company’s prospects for future cash flows.</p>	<p>N/A – Final IFRS Accounting Standard Issued in May 2026</p>	<p>The final principal standard, along with supporting material and effects analysis was released in May 2026, with a mandatory date for periods beginning on or after 1 January 2029.</p> <p>We will consider the NZ principal standard equivalent to IFRS 20 and seek the Board’s approval in the August 2026 NZASB meeting.</p>
11	<p>Risk Mitigation Accounting</p> <p>Standard-Setting Project</p>	<p>IFRS 9 <i>Financial Instruments</i></p> <p>IFRS 7 <i>Financial</i></p>	<p>New requirements to add a risk mitigation accounting model for companies managing repricing risk on a net basis, and to require a company to disclose its strategy for managing repricing risk and the</p>	<p>Open Exposure Draft – Closes 31 July 2026</p>	<p>The IASB have published an ED, which is now open for comment.</p> <p>Once the comment period ends, the IASB will analyse the feedback received on the proposed</p>

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
		<i>Instruments: Disclosures</i>	<p>effects of its risk management activities.</p> <p>The project aims to better represent in the financial statements the effects of a company's activities to mitigate repricing risk and provide useful information to users of financial statements about how a company manages repricing risk.</p>		<p>requirements and consider what refinements are needed.</p> <p>We have obtained some feedback from New Zealand stakeholders on these proposals and will look to feed these back to the IASB through the AOSSG comment letter, and future ASAF meetings, as agreed with the Board previously.</p>
12	<p>Statement of Cash Flows and Related Matters</p> <p>Standard-Setting Project</p>	IAS 7 <i>Statement of Cash Flows</i>	<p>Research on the nature and extent of perceived deficiencies in the Statement of Cash Flows and to consider how to improve the transparency of cash flow information.</p> <p>Potential ways of improving the Statement of Cash Flows include:</p> <ol style="list-style-type: none"> the disaggregation of cash flow information; the reporting of information about non-cash transactions; the transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards; the consistent application of requirements to classify cash flows as operating, investing or financing; and the consistent application of the definition of 'cash equivalents.' 	Develop Exposure Draft – 2027	<p>The IASB have decided to develop requirements to address practical issues around cash flows, and to extend the MPMs requirements to include cash flow measures.</p> <p>The IASB are still considering whether forms of relief can be provided to financial institutions from preparing a Statement of Cash Flows and what form this should take.</p> <p>The IASB tentatively decided to propose including, in the definition of cash equivalents, the requirement for cash equivalents to be held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.</p> <p>An Exposure Draft (in 2027) will be issued in line with their due process once all considerations are completed.</p>

Question for the Board:

Q1. Does the Board have any **COMMENTS** on the IASB's current projects, and are there any New Zealand-specific matters which staff should consider or research further on any of these projects?

Upcoming ASAF discussion – July 2026

- The July 2026 ASAF meeting will be held on Monday 6 July, and Tuesday 7 July 2026, with the following topics expected to be discussed:
 - Financial Instruments with Characteristics of Equity (IFRS 9)** – Seeking feedback on alternative approaches and potential refinements to the proposed requirements in the Exposure Draft on obligations to purchase own equity instruments.
 - Intangible Assets (IAS 38)** – Seeking feedback on possible implications of the IASB's findings related to user information needs on the direction of the project.

- **Statement of Cash Flows (IAS 7)** – Seeking feedback on developments for improving consistent application of requirements to classify cash flows as operating, investing and financing and cash flow requirements for financial institutions.
- **Rate-Regulated Activities (IFRS 20)** – IASB update on the status of the project and on planned implementation activities.
- **Risk Mitigation Accounting (IFRS 9 and IFRS 7)** – Seeking feedback on the proposals included in the Exposure Draft, and to understand the common topics of interest across different jurisdictions, and early feedback from any fieldwork conducted.
- **Business Combinations—Disclosures, Goodwill and Impairment (IFRS 3 and IASB 36)** – IASB update on the status of the project.

Question for the Board:

Q2. Does the Board have any **COMMENTS** on the upcoming ASAF discussions?

Memorandum

To: NZASB Members

Meeting date: 11 June 2026

Subject: **IPSASB projects update**

Date: 29 May 2026

Prepared by: Gali Slyuzberg

Through: Michelle Lombaard

Action Required

For Information Purposes Only

Purpose¹

1. The purpose of this paper is to provide the Board with an update on the current and upcoming projects of the International Public Sector Accounting Standards Board (IPSASB).
2. As per the XRB's [Statement of Intent](#), we enable trust and confidence in the external reporting system by setting high-quality standards that are internationally credible and locally relevant.
3. The observations in Agenda Item 13.1(a) about the XRB's proactive international engagement with the International Accounting Standards Board (IASB) via the Accounting Standards Advisory Forum (ASAF) also apply to the XRB's engagement with the IPSASB. That is:
 - (a) The XRB's proactive international engagement allows us to build credibility and influence both the international standard-setting agenda and the standards as they are set.
 - (b) Our activities to support the New Zealand member of IPSASB, as well as our interaction with IPSASB staff in this process and other international engagements, allows us opportunities to positively inform the development of international standards, so that the New Zealand context is well considered early in their development. This also enhances our understanding of global norms and nuances to be considered domestically.
4. Board Members are welcome to reach out to staff if they are interested in an IPSASB project, or if they have specific views or observations that they would like us to consider in our preparations to provide inputs for IPSASB meetings, and in developing an understanding of the New Zealand context relating to these projects. In conjunction with other outreach activities that we conduct on the projects (including our Technical Reference Group, PBE Working Group, and the New Zealand and Australian public sector stakeholders with whom we meet ahead of IPSAS meetings), any additional feedback will help shape our understanding and inputs.

Recommendations

5. We recommend that the Board **NOTE** the update on the status of IPSASB projects and **PROVIDE FEEDBACK**, where relevant. We invite the Board and any interested party to reach out should they want to provide input to these projects for our consideration.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

IPSASB projects update

6. The table below provides an overview of IPSASB *financial reporting* standard-setting projects that are currently on the IPSASB's work programme. The IPSASB Work Programme Consultation is also included. Sustainability reporting projects are *excluded*.
7. The table *excludes* research and maintenance activities, such as academic forums and the IPSASB Application Group (IAG) – although we note that we intend to engage with the IAG (e.g. by submitting questions on the application of IPSAS 47 *Revenue* to address queries from NZ stakeholders).
8. The IPSASB's full work plan (latest version from the [June 2026 IPSASB papers, Agenda Item 2](#)) is included in the appendix to this memo.

Table 1 IPSASB financial reporting standard setting projects

	Project	Related standard	Project purpose	Next milestone	Current status
1	IPSASB Work Programme Consultation	Various	To perform a limited-scope public consultation during the second half of 2025 on projects to add to the IPSASB's future Work Programme when resources become available.	Consider feedback (Jun 2026)	<p>This consultation closed in May 2026. The XRB submitted a comment letter. IPSASB is considering feedback received. Approval of new projects expected in Sept 2026.</p> <p>At the June 2026 meeting, IPSASB staff will recommend adding to the Work Programme a post-implementation review (PIR) of IPSAS 35 <i>Consolidated Financial Statements</i>. This was one of the standards that the XRB recommended for a PIR.</p> <p>The IPSASB will also be asked to select one of more of the following financial reporting projects to prioritise: (a) Intangible Assets; (b) Provisions; (c) Climate-related and Other Uncertainties in Financial Statements (CROUFS) – public sector-specific context; (d) Disclosure of Tax Expenditure, and/or; (e) rebalancing resources to focus on implementation support. This list contains recommendations from the XRB's submission. We recommended prioritising Provisions and CROUFS¹ – focusing on IASB alignment and addressing public sector-specific matters – and monitoring the IASB project on Intangible Assets.</p> <p>¹ <i>The IASB named the pronouncement arising from the CROUFS project 'Disclosures about Uncertainties in the Financial Statements', which is how we referred to it in the XRB's submission to the IPSASB.</i></p>
2	Presentation of Financial Statements	Proposed new standard to replace IPSAS 1 <i>Presentation of Financial Statements</i>	To enhance the communication effectiveness of financial information reported in public sector general purpose financial statements by developing a new IPSAS Standard to replace IPSAS 1.	Consultation feedback due 14 Sept 2026	<p>The IPSASB issued the Consultation Paper (CP) Presentation of Financial Statements in April 2026. The CP proposes a new standard, aligned with IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>, with modifications for the public sector context. Comments are due to the IPSASB by 14 September 2026. The NZASB agreed to comment on the CP and we are currently consulting on these proposals in NZ – see Agenda Item 9. After the CP consultation, the IPSASB plans to publish an ED in 2027, with a final standard expected in 2028. After that, the NZASB would need to decide whether to develop a PBE Standard based on the new IPSAS.</p>

	Project	Related standard	Project purpose	Next milestone	Current status
3	Making Materiality Judgements	Practice Statement on the application of materiality across IPSAS Standards	To develop non-authoritative guidance to clarify how to make materiality judgments when preparing general purpose financial statements (GPFS) in accordance with IPSAS Standards.	Consultation feedback due 28 Aug 2026	The IPSASB is consulting on ED 97 IPSAS Practice Statement – Making Materiality Judgments . The proposed non-authoritative Practice Statement is based on IFRS Practice Statement 2 <i>Making Materiality Judgments</i> , with modifications for the public sector context. Comments are due to the IPSASB by 28 August 2026. The NZASB agreed to comment on the ED and we are currently consulting on these proposals in New Zealand – see Agenda Item 10. The final IPSASB pronouncement is expected in December 2026. The NZASB would then consider whether and how to incorporate this guidance into PBE Standards literature.
4	Measurement – Application Phase – COV in IPSAS 31	IPSAS 31 <i>Intangible Assets</i>	To evaluate the applicability of current operational value in IPSAS 31.	Discussion of issues (Jun 2026)	In Phase 2 of the IPSASB Measurement project, ED 90 Amendments to IPSAS As a Result of the Application of IPSAS 46 Measurement proposed to introduce COV measurement requirements for revalued intangible assets. The ED was accompanied by an Alternative View (AV), which expressed concerns about the proposal to allow intangible assets held for operational capacity to be revalued at COV without an ‘active market’ restriction (while retaining this restriction for revaluing intangible assets held for financial capacity at fair value) – noting that further analysis is needed to determine whether this would result in appropriate reporting outcomes, and there is benefit in waiting for the IASB to progress its project on intangible assets. The IPSASB received mixed feedback on its proposal to introduce COV for intangible assets, with a number of respondents, including the NZASB , supporting the AV. Consequently, the IPSASB is currently undertaking further research on this topic. Currently, a final pronouncement is expected in September 2026. After that, the NZASB would need to decide whether this pronouncement should be considered for incorporation into PBE Standards as part of the PBE Measurement project, which is estimated to commence in 2027.
5	Improvements	Various	General improvements and IFRS alignment improvements to IPSAS Accounting Standards	Consultation feedback due 30 Aug 2026	The IPSASB is currently consulting on: <ul style="list-style-type: none"> • ED 95 Improvements to IPSAS Accounting Standards – Volume 10; and • ED 96 Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40). Comments are due to the IPSASB by 30 June 2026. The consultations are open on our website (ED 95 and ED 96). Once the IPSASB issues the final pronouncements, the NZASB would need to decide whether and when to incorporate these into PBE Standards in NZ.

	Project	Related standard	Project purpose	Next milestone	Current status
6	Strengthening Linkages between IPSAS Standards and GFSM	IPSAS 22 <i>Disclosure of Financial Information about the General Government Sector</i>	to strengthen the linkages between IPSAS Standards and GFSM to help public sector entities maximize the extent to which they can draw on IPSAS Standards-based information in preparing statistical information that is used by decision-makers and for accountability purposes.	Consultation feedback due 22 Jun 2026	<p>The IPSASB is consulting on ED 94 Linkages Between IPSAS Standards and the Government Finance Statistics Manual 2014 (Amendments to IPSAS 22). The ED proposes to add non-authoritative guidance into IPSAS 22, to facilitate the preparation of disclosures required in that standard, where a reporting entity elects to do this – and support the use of IPSAS Standards-based accounting data for GFSM 2014 reporting purposes.</p> <p>These proposals are of limited relevance in New Zealand, as PBE IPSAS 22 is currently not applied (this standard only applies when a government <i>elects</i> to present information on the general government sector in its consolidated financial statements). The consultation is included on our website. When the IPSASB issues the final pronouncement, the NZASB would need to decide whether and when to incorporate it into PBE Standards in NZ.</p>

9. Please note: Following a presentation by the XRB Director of Accounting Standards at the IPSASB Public Sector Standard Setters Forum in September 2025, the IPSASB stated in its [2025 Work Programme Consultation document](#) that it “plans to undertake research on the architecture of its existing suite of literature to determine where guidance is best situated”. The timing of this project is yet to be determined. The XRB’s recent comment letter on the IPSASB Work Programme Consultation strongly supported this project.

Question for the Board:

Q1. Does the Board have any **COMMENTS** on the IPSASB’s current projects, and are there any New Zealand-specific matters which staff should consider or research further on any of these projects?

Appendix: Latest IPSASB Work Programme [Source: IPSASB June 2026 meeting papers – [Agenda Item 2](#)]

Project	Meetings						
	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027	Dec 2027
Standard Setting Projects							
Climate-related Disclosures: Public Policy Outcomes	RR/DI	DI/IP	IP				
Presentation of Financial Statements			RR/DI	RR/DI	RR/DI	ED	
Strengthening Linkages Between IPSAS Standards and the GFSM		RR/DI	IP				
Measurement – Application Phase: COV in IPSAS 31 – Narrow Scope Amendments	RR/DI	IP					
Improvements		RR/IP		DI/ED		RR/IP	
Making Materiality Judgments—IPSAS Financial Reporting Practice Statement			RR/IP				
Work Program Consultation–2025	RR/DI	WP					
Strategy Consultation	IG/DI						
Maintenance & Research Activities							
International Application Group	DI	DI	DI	DI	DI	DI	DI
Financial Reporting Implementation Forum	DI	DI	DI	DI	DI	DI	DI
Academic Advisory Group – Public Sector Research	IG/DI	IG/DI	IG/DI	IG/DI	IG/DI	IG/DI	IG/DI
Other Initiatives							
Advancing Public Sector Sustainability Reporting: I) General Requirements for Disclosure of Sustainability-related Information II) Natural Resources: Non-Financial Disclosures	IG	IG	IG	IG	IG	IG	IG
IPSASB Handbook	Publish				Publish		

Legend:

DI = Discussion of Issues; RR = Review of Responses

PB = Approval of Project Brief

CP = Approval of Consultation Paper

ED = Approval of Exposure Draft

RFI = Approval of Request for Information

IP = Approval of Final Standard or Amendments to IPSAS

SWP = Approval of Strategy and Work Program

PC = Planned Consultation Period

RS = Research and Scoping Activities

IG = Information Gathering