PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 19 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (PBE IPSAS 19)

Issued September 2014 and incorporates amendments to 31 December 2022 other than consequential amendments resulting from adoption of PBE IFRS 17 *Insurance Contracts*

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates in paragraphs 112.1 to 112.11.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* issued in May 2013.

Note for not-for-profit entities that apply PBE IFRS 17 *Insurance Contracts* (i.e., not-for-profit entities that issue insurance contracts or issue/hold reinsurance contracts)
Please read this Standard in conjunction with Appendix D of PBE IFRS 17 *Insurance Contracts*, which contains amendments to this Standard. Those amendments are applicable only to Tier 1 and Tier 2 not-for-profit public benefit entities that apply PBE IFRS 17. The amendments introduced by PBE IFRS 17 will be compiled into this Standard together with the amending standard *Insurance Contracts in the Public Sector*.

PBE IPSAS 19 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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PBE IPSAS 19 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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Public Benefit Entity International Public Sector Accounting Standard 19 *Provisions, Contingent Liabilities and Contingent Assets* is set out in paragraphs 1–113 and Appendices A–C. All the paragraphs have equal authority. PBE IPSAS 19 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 19, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to (a) define provisions, contingent liabilities, and contingent assets, and (b) identify the circumstances in which provisions should be recognised, how they should be measured, and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements, to enable users to understand their nature, timing, and amount.

Scope

1. **An entity that prepares and presents financial statements shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**

   (a) [Not used]

   (b) [Deleted by IPSASB]

   (c) **Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;**

   (d) **Insurance contracts within the scope of PBE IFRS 4 *Insurance Contracts*;**

   (e) **Those covered by another PBE Standard;**

   (f) **Those arising in relation to income taxes or income tax equivalents; and**

   (g) **Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard.**

   (h) [Deleted by NZASB]

2. [Not used]

2.1 **Subject to paragraph 2.2, this Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2 **The Crown shall not apply this Standard in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.**

2.3 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. [Not used]

4. This Standard does not apply to financial instruments (including guarantees) that are within the scope of PBE IPSAS 41 *Financial Instruments.*

4A. This Standard does not apply to the contingent consideration of an acquirer in a PBE combination which is within the scope of PBE IPSAS 40 *PBE Combinations*.

5. [Deleted by IPSASB]

6. This Standard applies to provisions for restructuring (including discontinued operations). In some cases, a restructuring may meet the definition of a discontinued operation. Guidance on disclosing information about discontinued operations can be found in PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

7–11. [Not used]

The Crown

11.1 Obligations of the Crown expressed in legislation that have characteristics similar to an executory contract are those where:

   (a) The Crown is obligated to provide goods, services or transfers to the community in future periods using funding to be obtained from the community substantially in those future periods; and

   (b) The intended third party recipients of the goods, services or transfers have not yet satisfied the criteria for entitlement to those goods, services or transfers.

11.2 These obligations of the Crown have characteristics similar to executory contracts in that the community will, collectively, provide funds to the Crown in the future under tax legislation, and the Crown will, in return, provide goods, services or transfers to the community in the future. Such obligations of the Crown include obligations to make future social welfare payments (such as to pay unemployment, domestic purposes and national superannuation benefits) and to deliver future health and education services, to the extent that the substantial funding of those benefits will be met through future taxation and other revenues and the intended recipients have not already satisfied the criteria for entitlement to those benefits. However, such obligations exclude the obligation of the Crown to fund future payments by the Government Superannuation Fund since the recipients of those future payments have already performed services giving rise to obligations.

11.3 The exclusion from the application of this Standard of obligations of the Crown that have characteristics similar to an executory contract is not intended to achieve a different result, in terms of the Crown's recognition of liabilities, from the practice followed at the date of introduction of this Standard to recognise liabilities only where the recipients of benefits to be provided in the future have already satisfied the criteria for entitlement to those benefits.

Other Exclusions from the Scope of the Standard

12. This PBE Standard does not apply to executory contracts unless they are onerous. Nor shall this standard be applied by the Crown in accounting for obligations expressed in legislation that have characteristics similar to an executory contract.

13. Where another PBE Standard deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on:

    (a) Construction contracts (see PBE IPSAS 11 *Construction Contracts*); and

    (b) Leases (see PBE IPSAS 13 *Leases*). However, as PBE IPSAS 13 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases.

14. This Standard does not apply to provisions for income taxes or income tax equivalents (if the entity is subject to taxation, guidance on accounting for income taxes is found in PBE IAS 12 *Income Taxes*.) Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in PBE IPSAS 39 *Employee Benefits*).

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. PBE IPSAS 9 *Revenue from Exchange Transactions* identifies the circumstances in which revenue from exchange transactions is recognised, and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of PBE IPSAS 9.

16. [Not used]

17. Other PBE Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

Definitions

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

    A <u>constructive obligation</u> is an obligation that derives from an entity's actions where:

    (a) **By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and**

    (b) **As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.**

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

(a) **A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**

(b) **A present obligation that arises from past events, but is not recognised because:**

  (i) **It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or**

  (ii) **The amount of the obligation cannot be measured with sufficient reliability.** [1]

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

A legal obligation is an obligation that derives from:

(a) **A contract (through its explicit or implicit terms);**

(b) **Legislation; or**

(c) **Other operation of law.**

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

A restructuring is a programme that is planned and controlled by management, and materially changes either:

(a) **The scope of an entity's activities; or**

(b) **The manner in which those activities are carried out.**

Terms defined in other PBE 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.

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

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[1] 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. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability.

Relationship between Provisions and Contingent Liabilities

20. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

21. This Standard distinguishes between:

   (a) Provisions—which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

   (b) Contingent liabilities—which are not recognised as liabilities because they are either:

      (i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

      (ii) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

22. **A provision shall be recognised when:**

   (a) **An entity has a present obligation (legal or constructive) as a result of a past event;**

   (b) **It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**

   (c) **A reliable estimate can be made of the amount of the obligation.**

   If these conditions are not met, no provision shall be recognised.

Present Obligation

23. **In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.**

24. In most cases it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

   (a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognises a provision (if the recognition criteria are met); and

   (b) Where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

   (a) Where the settlement of the obligation can be enforced by law; or

(b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the reporting date.

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on an entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that entity. Similarly, an entity would recognise a provision for the decommissioning costs of a defence installation or a power station, to the extent that the entity is obliged to rectify damage already caused. PBE IPSAS 17 *Property, Plant and Equipment* deals with items, including dismantling and site restoring costs that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where an entity decides to fit emission controls on certain of its vehicles, or a laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognised.

28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by an entity, there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified, or the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.

30. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted, and any decision about the existence of an obligation should await the enactment of the proposed law.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

31. For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

32. Where there are a number of similar obligations (for example, a hospital's obligation to compensate individuals who have received contaminated blood from it), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable Estimate of the Obligation

33. The use of estimates is an essential part of the preparation of financial statements, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes, and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

34. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 100).

Contingent Liabilities

35. **An entity shall not recognise a contingent liability.**

36. A contingent liability is disclosed, as required by paragraph 100, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint arrangement debt, that part of the obligation that is to be met by other joint arrangement participants is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

38. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). For example, an entity may have breached an environmental law, but it remains unclear whether any damage was caused to the environment. Where, subsequently it becomes clear that damage was caused and remediation will be required, the entity would recognise a provision because an outflow of economic benefits is now probable.

Contingent Assets

39. **An entity shall not recognise a contingent asset.**

40. Contingent assets usually arise from unplanned or other unexpected events that (a) are not wholly within the control of the entity, and (b) give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

41. Contingent assets are not recognised in financial statements, since this may result in the recognition of revenue that may never be realised. However, when the realisation of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

42. A contingent asset is disclosed, as required by paragraph 105, where an inflow of economic benefits or service potential is probable.

43. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph 105).

Measurement

Best Estimate

44. **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

46. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Example

A medical laboratory provides diagnostic ultrasound scanners to medical centres and hospitals on a full-cost recovery basis. The equipment is provided with a warranty under which the medical centres and hospitals are covered for the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were detected in all equipment provided, repair costs of 1 million currency units would result. If major defects were detected in all equipment provided, repair costs of 4 million currency units would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. In accordance with paragraph 32, the laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

(75% of nil) + (20% of 1m) + (5% of 4m) = 400,000

47. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value." The provision will therefore be different, depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.

48. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a defence vessel that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 100,000 currency units, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

49. The provision is measured before tax or tax equivalents. If the entity is subject to taxation, guidance on dealing with the tax consequences of a provision, and changes in it, is found in PBE IAS 12.

Risks and Uncertainties

50. **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

Present Value

53. **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

54. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

    When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (see Illustrative Example).

55. Paragraph 97(e) of this Standard requires disclosure of the increase, during the period, in the discounted amount arising from the passage of time.

56. **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

57. In some jurisdictions, income taxes or income tax equivalents are levied on a public sector entity's surplus for the period. Where such income taxes are levied on public sector entities, the discount rate selected should be a pre-tax rate.

Future Events

58. **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

59. Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index-linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where an entity believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognised reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

60. The effect of possible new legislation that may affect the amount of an existing obligation of an entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**

62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the PBE Standard dealing with the assets concerned.

Reimbursements

63. **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be**

treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

64. **In the statement of comprehensive revenue and expense, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.**

65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, an entity may have legal liability to an individual as a result of misleading advice provided by its employees. However, the entity may be able to recover some of the expenditure from professional indemnity insurance.

66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.

67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

68. As noted in paragraph 37, an obligation for which an entity is jointly and severally liable is a contingent liability, to the extent that it is expected that the obligation will be settled by the other parties.

Changes in Provisions

69. **Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.**

70. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Use of Provisions

71. **A provision shall be used only for expenditures for which the provision was originally recognised.**

72. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the Recognition and Measurement Rules

Future Operating Net Deficits

73. **Provisions shall not be recognised for net deficits from future operating activities.**

74. Net deficits from future operating activities do not meet the definition of liabilities in paragraph 18 and the general recognition criteria set out for provisions in paragraph 22.

75. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating Assets*, as appropriate.

Onerous Contracts

76. **If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognised and measured as a provision.**

77. Paragraph 76 of this Standard applies only to contracts that are onerous.

78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists that is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.

79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognised as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

79A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) The incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.

80. Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract (see PBE IPSAS 21 and PBE IPSAS 26).

Restructuring

81. The following are examples of events that may fall under the definition of restructuring:

(a) Termination or disposal of an activity or service;

(b) The closure of a branch office or termination of activities of an entity in a specific location or region, or the relocation of activities from one region to another;

(c) Changes in management structure, for example, eliminating a layer of management or executive service; and

(d) Fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

82. A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 22 are met. Paragraphs 83–96 set out how the general recognition criteria apply to restructurings.

83. **A constructive obligation to restructure arises only when an entity:**

(a) **Has a detailed formal plan for the restructuring identifying at least:**

(i) **The activity/operating unit or part of an activity/operating unit concerned;**

(ii) **The principal locations affected;**

(iii) **The location, function, and approximate number of employees who will be compensated for terminating their services;**

(iv) **The expenditures that will be undertaken; and**

(v) **When the plan will be implemented; and**

(b) **Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**

84. Within the public sector, restructuring may occur at the whole-of-government, portfolio or ministry, or agency level.

85. Evidence that an entity has started to implement a restructuring plan would be provided, for example, by (a) the public announcement of the main features of the plan, (b) the sale or transfer of assets, (c) notification of intention to cancel leases, or (d) the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties, such as users of the service, suppliers, and employees (or their representatives) that the entity will carry out the restructuring.

86. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible, and to be completed in a timeframe

that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins, or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) Started to implement the restructuring plan; or

(b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under PBE IPSAS 14 *Events After the Reporting Date* if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the financial statements.

88. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 83 are met.

89. In some countries, (a) the ultimate authority for making decisions about an entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for example, employees), or (b) notification to these representatives may be necessary before the governing body or board decision is taken. Because a decision by such a governing body or board involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or Transfer of Operations

90. **No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.**

91. Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind, and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

92. Restructuring within the public sector often involves the transfer of operations from one controlled entity to another, and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government directive, and will not involve binding agreements as described in paragraph 90. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other PBE Standards, such as PBE IPSAS 14, and PBE IPSAS 20 *Related Party Disclosures*.

Restructuring Provisions

93. **A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:**

(a) **Necessarily entailed by the restructuring; and**

(b) **Not associated with the ongoing activities of the entity.**

94. A restructuring provision does not include such costs as:

(a) Retraining or relocating continuing staff;

(b) Marketing; or

(c) Investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, as defined in paragraph 18.

96. As required by paragraph 61, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

97. **For each class of provision, an entity shall disclose:**

(a) **The carrying amount at the beginning and end of the period;**

*****(b) **Additional provisions made in the period, including increases to existing provisions;**

(c) **Amounts used (that is, incurred and charged against the provision) during the period;**

(d) **Unused amounts reversed during the period; and**

*****(e) **The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

98. **An entity shall disclose the following for each class of provision:**

(a) **A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;**

(b) **An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 58; and**

*****(c) **The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**

RDR 98.1 **A Tier 2 entity is not required to disclose the major assumptions concerning future events in accordance with paragraph 98(b).**

99. [Not used]

100. **Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:**

(a) **An estimate of its financial effect, measured under paragraphs 44–62;**

(b) **An indication of the uncertainties relating to the amount or timing of any outflow; and**

(c) **The possibility of any reimbursement.**

101. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 98(a) and (b) and 100(a) and (b). Thus, it may be appropriate to treat, as a single class of provision, amounts relating to one type of obligation, but it would not be appropriate to treat, as a single class, amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

102. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 97, 98, and 100 in a way that shows the link between the provision and the contingent liability.

103. An entity may in certain circumstances use external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

104. [Not used]

105. **Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44–62.**

106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs 39 to 43 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where an entity allows a company to mine one of its properties in exchange for a royalty based on a set price per ton extracted, and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified, where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves, or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the entity would not disclose information required by paragraph 105 as there is no probable flow of benefits.

107. The disclosure requirements in paragraph 105 encompass contingent assets from both exchange and non-exchange transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event.

108. **Where any of the information required by paragraphs 100 and 105 is not disclosed because it is not practicable to do so, that fact shall be stated.**

109. **In extremely rare cases, disclosure of some or all of the information required by paragraphs 97–107 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Transitional Provisions

110. [Not used]

110A. *2022 Omnibus Amendments to PBE Standards*, issued in June 2022, added paragraph 79A and amended paragraph 80. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of accumulated comprehensive revenue and expense or other component of net assets/equity, as appropriate, at the date of initial application.

Effective Date

111–112. [Not used]

112.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

112.2 ***2015 Omnibus Amendments to PBE Standards*, issued in July 2015, added paragraph 1(h) as a consequential amendment derived from the amendment to PBE IFRS 3 *Business Combinations*. An entity shall apply that amendment prospectively to business combinations to which the amendment to PBE IFRS 3 applies.**

112.3 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, added a footnote to paragraph 18. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2017.**

112.4 **PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 37 *Joint Arrangements*, issued in January 2017, amended paragraphs 37 and B3. An entity shall apply those amendments when it applies PBE IPSAS 35 and PBE IPSAS 37.**

112.5 **PBE IFRS 9 *Financial Instruments*, issued in January 2017, amended paragraph 4. An entity shall apply that amendment when it applies PBE IFRS 9.**[1]

112.6 **PBE IPSAS 39, issued in May 2017, amended paragraph 14. An entity shall apply that amendment when it applies PBE IPSAS 39.**

112.7 **PBE IPSAS 40, issued in July 2019, amended paragraph 1 and added paragraph 4A. An entity shall apply those amendments when it applies PBE IPSAS 40.**

112.8 **PBE IPSAS 41, issued in March 2019, amended paragraphs 4 and 112.5. An entity shall apply those amendments when it applies PBE IPSAS 41.**

112.9 [See PBE IFRS 17 *Insurance Contracts*]

112.10. ***2022 Omnibus Amendments to PBE Standards*, issued in June 2022, added paragraphs 79A and 110A and amended paragraph 80. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

112.11. ***2022 Omnibus Amendments to PBE Standards*, issued in June 2022, amended Appendix A by adding paragraphs A1 and A2, and amending paragraph A6 (originally numbered as paragraph A4). An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2023. Early application is permitted.**

Withdrawal and Replacement of PBE IPSAS 19 (May 2013)

113. This Standard, when applied, supersedes PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* issued in May 2013.

1 PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled.

Appendix A

Application Guidance *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

This Appendix is an integral part of PBE IPSAS 19.

Introduction

A1. Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Appendix such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under PBE IPSAS 17 *Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. This Standard contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Scope

A2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

(a) Recognised as part of the cost of an item of property, plant and equipment in accordance with PBE IPSAS 17 *Property, Plant and Equipment*; and

(b) Recognised as a liability in accordance with this Standard.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

Issue

A3. This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(a) A change in the estimated outflow of resources embodying economic benefits (e.g., cash flows) required to settle the obligation;

(b) A change in the current market-based discount rate as defined in paragraph 56 of this Standard (this includes changes in the time value of money and the risks specific to the liability); and

(c) An increase that reflects the passage of time (also referred to as the unwinding of the discount).

Consensus

A4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs A3–A5 below.

A5. If the related asset is measured using the cost model:

(a) Subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.

(c) If the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Cash-Generating Assets.*

A6. If the related asset is measured using the revaluation model:

(a) Changes in the liability alter the revaluation surplus or deficit previously recognised on that class of assets.

(i) If the carrying amount of a class of assets is increased as a result of changes in the liability, the increase shall be recognised in other comprehensive revenue and expense and accumulated in net assets/equity under the heading of revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit

(ii) If the carrying amount of a class of assets is decreased as a result of changes in the liability, the decrease shall be recognised in surplus or deficit. However, the decrease shall be recognised in other comprehensive revenue and expense to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

(b) In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in surplus or deficit.

(c) A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation shall be taken into account in determining the amounts to be recognised in surplus or deficit or in other comprehensive revenue and expense under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) PBE IPSAS 1 *Presentation of Financial Reports* requires disclosure in the statement of comprehensive revenue and expense of each item of other comprehensive revenue/expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

A7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

A8. The periodic unwinding of the discount shall be recognised in surplus or deficit as a finance cost as it occurs. Capitalisation under PBE IPSAS 5 *Borrowing Costs* is not permitted.

Appendix B

Application Guidance *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

This Appendix is an integral part of PBE IPSAS 19.

Issues

B1. The issues addressed in this Appendix are:

(a) How should a contributor account for its interest in a fund?

(b) When a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

Consensus

Accounting for an Interest in a Fund

B2. The contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

B3. The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to PBE IPSAS 35 *Consolidated Financial Statements,* PBE IPSAS 36 *Investments in Associates and Joint Ventures,* and PBE IPSAS 37 *Joint Arrangements*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

B4. If a contributor does not have control, joint control or significant influence over the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with this Standard. This reimbursement shall be measured at the lower of:

(a) The amount of the decommissioning obligation recognised; and

(b) The contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund shall be recognised in surplus or deficit in the period in which these changes occur.

Accounting for Obligations to make Additional Contributions

B5. When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of this Standard. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Disclosure

B6. A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

B7. When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 5), it shall make the disclosures required by paragraph 100 of this Standard.

B8. When a contributor accounts for its interest in the fund in accordance with paragraph 4, it shall make the disclosures required by paragraph 98(c) of this Standard.

Appendix C

Application Guidance *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

This Appendix is an integral part of PBE IPSAS 19.

Issue

C1. This Appendix provides guidance on the identification of the obligating event for the recognition of a provision for waste management costs, in the context of the decommissioning of waste electrical and electronic equipment in a specific market such as that regulated by the EU Directive on Waste Electrical and Electronic Equipment. For the purposes of recognising a provision for waste management costs, what constitutes the obligating event in accordance with paragraph 22(a) of this Standard:

(a) The manufacture or sale of the historical household equipment?

(b) Participation in the market during the measurement period?

(c) The incurrence of costs in the performance of waste management activities?

Consensus

C2. Participation in the market during the measurement period is the obligating event in accordance with paragraph 22(a) of this Standard. As a consequence, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. Because the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 19.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 19 are generally appropriate for application by public benefit entities.

BC2. The NZASB has decided to replace the scope exclusion for social benefit obligations in IPSAS 19 (paragraph 1(a) and paragraphs 7–10 of IPSAS 19) with the scope exclusion for certain obligations of the Crown from NZ IAS 37 (PBE) (paragraphs NZ1.1 and NZ3.1–NZ3.3 of NZ IAS 37 (PBE)). The NZASB noted that, at the time of developing PBE IPSAS 19, the IPSASB had two projects which could lead to a review of the scope of IPSAS 19. The projects relate to social benefits and the development of a conceptual framework.[1] While these projects are in progress, the NZASB decided to retain the existing scope exclusion in relation to certain obligations of the Crown.

BC3. The scope exclusion in PBE IPSAS 19 is in respect of those obligations of the Crown expressed in legislation that have characteristics similar to an executory contract where:

(a) the Crown is obligated to provide goods, services or transfers to the community in future periods using funding to be obtained from the community substantially in those future periods; and

(b) the intended third party recipients of the goods, services or transfers have not yet satisfied the criteria for entitlement to those goods, services or transfers.

This scope exclusion replaces that in IPSAS 19 in respect of certain provisions and contingent liabilities arising from social benefits.

BC4. The NZASB elected to delete paragraph 16 of PBE IPSAS 19 which read:

This Standard defines provisions as liabilities of uncertain timing or amount. In some countries, the term provision is also used in the context of items such as depreciation, impairment of assets and doubtful debts; these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

This paragraph was removed because the term “provisions” has not been used in New Zealand in the other contexts mentioned by IPSAS 19 for some time.

BC5. The NZASB included the requirements of NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, and NZ IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment* in order to continue current practice in areas that are not addressed by IPSASs.

2022 Omnibus Amendments to PBE Standards

BC6. *Onerous Contracts—Cost of Fulfilling a Contract*, issued by the IASB in May 2020, amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments clarify the costs of fulfilling a contract that an entity includes when assessing whether a contract will be loss-making or onerous (and therefore whether a provision needs to be recognised). The IPSASB subsequently amended IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, by issuing *Improvements to IPSAS, 2021* in January 2022. The NZASB subsequently amended PBE IPSAS 19 in *2022 Omnibus Amendments to PBE Standards*.

BC7. The NZASB decided to amend Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* to clarify that the Appendix applies to related assets that are property, plant and equipment, and to align the requirements for such assets measured using the revaluation model with the requirements in PBE IPSAS 17.

[1] The IPSAB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in October 2014, and the NZASB issued the *Public Benefit Entities' Conceptual Framework* in May 2016.

Tables

Provisions, Contingent Liabilities, Contingent Assets, and Reimbursements

These Tables accompany, but are not part of, PBE IPSAS 19.

Provisions and Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognised (paragraph 22).	No provision is recognised (paragraph 35).	No provision is recognised (paragraph 35).
Disclosures are required for the provision (paragraphs 97 and 98).	Disclosures are required for the contingent liability (paragraph 100).	No disclosure is required (paragraph 100).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent Assets

Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits or service potential is virtually certain.	**The inflow of economic benefits or service potential is probable, but not virtually certain.**	**The inflow of economic benefits or service potential is not probable.**
The asset is not contingent (paragraph 41).	No asset is recognised (paragraph 39).	No asset is recognised (paragraph 39).
	Disclosures are required (paragraph 105).	No disclosure is required (paragraph 105).

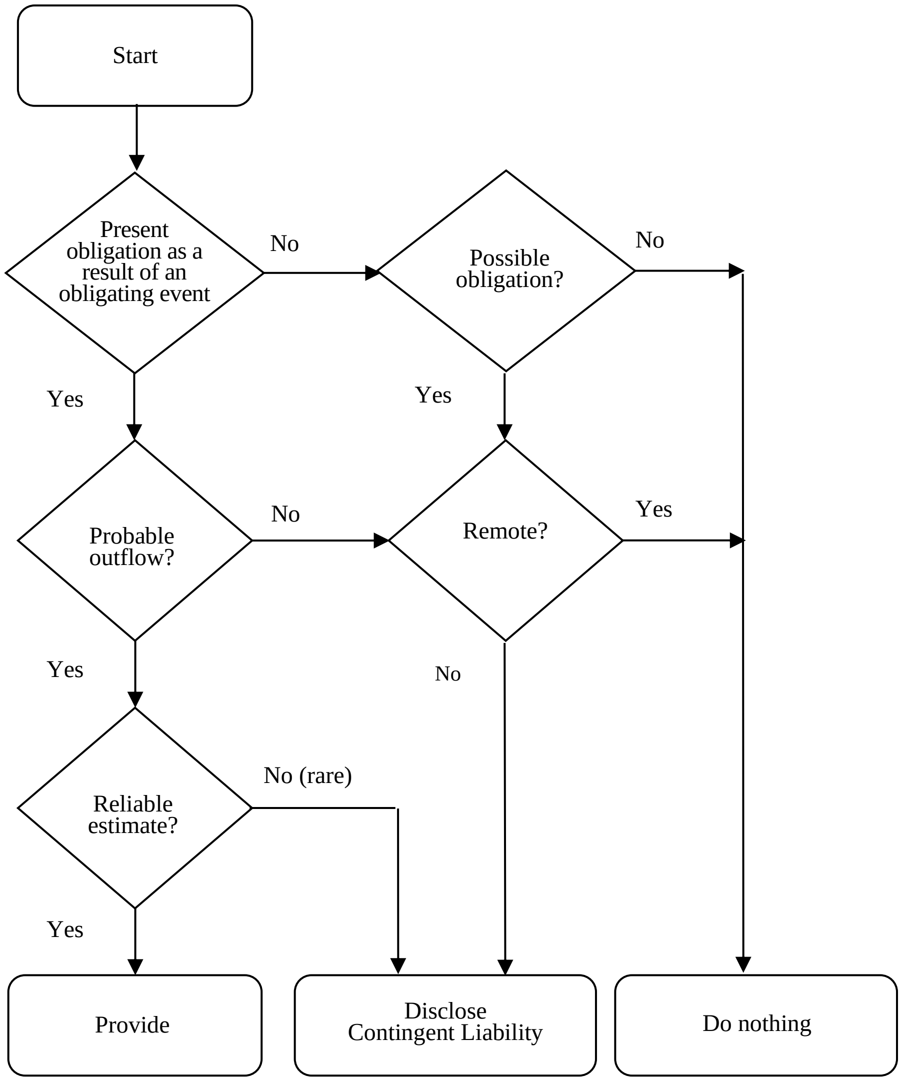
Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph 67).	The reimbursement is recognised as a separate asset in the statement of financial position, and may be offset against the expense in the statement of comprehensive revenue and expense. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 63 and 64).	The expected reimbursement is not recognised as an asset (paragraph 63).
No disclosure is required.	The reimbursement is disclosed, together with the amount recognised for the reimbursement (paragraph 98(c)).	The expected reimbursement is disclosed (paragraph 98(c)).

Illustrative Decision Tree

This decision tree accompanies, but is not part of, PBE IPSAS 19.

Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph 23 of this Standard).



Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 19.

Recognition

IG1. All the entities in the examples have a reporting date of June 30. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples, the circumstances described may have resulted in impairment of the assets – this aspect is not dealt with in the examples.

IG2. The cross-references provided in the examples indicate paragraphs of this Standard that are particularly relevant. This guidance should be read in the context of the full text of this Standard.

IG3. References to "best estimate" are to the present value amount, where the effect of the time value of money is material.

Warranties

IG4. Entity A manufactures search and rescue equipment for use within the entity and for sale to the public. At the time of sale, the entity gives warranties to purchasers in relation to certain products. Under the terms of the sale, the entity undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (that is, more likely than not) that there will be some claims under the warranties.

Analysis

Present obligation as a result of a past obligating event **–** The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement **–** Probable for the warranties as a whole (see paragraph 32).

Conclusion

A provision is recognised for the best estimate of the costs of making good under the warranty products sold on or before the reporting date (see paragraphs 22 and 32).

Contaminated Land—Legislation Virtually Certain to be Enacted

IG5. An entity owns a warehouse on land near a port. The entity has retained ownership of the land because it may require the land for future expansion of its port operations. For the past ten years, a group of farmers have leased the property as a storage facility for agricultural chemicals. Central government announces its intention to enact environmental legislation requiring property owners to accept liability for environmental pollution, including the cost of cleaning-up contaminated land. As a result, the entity introduces a hazardous chemical policy and begins applying the policy to its activities and properties. At this stage it becomes apparent that the agricultural chemicals have contaminated the land surrounding the warehouse. The entity has no recourse against the farmers or its insurance company for the clean-up costs. At June 30 2001 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Analysis

Present obligation as a result of a past obligating event **–** The obligating event is the contamination of the land because of the virtual certainty of legislation requiring the clean-up.

An outflow of resources embodying economic benefits or service potential in settlement **–** Probable.

Conclusion

A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Contamination and Constructive Obligation

IG6. An entity running a fishing business has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy. There is no environmental legislation in place in the jurisdiction. During the course of normal business, a fishing vessel is damaged and leaks a substantial amount of oil. The entity agrees to pay for the costs of the immediate clean-up and the ongoing costs of monitoring and assisting marine animals and birds.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the entity has created a valid expectation that the entity will clean up the contamination.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Gravel Quarry

IG7. An entity operates a gravel quarry on land that it leases on a commercial basis from a private sector company. The gravel is used for the construction and maintenance of roads. The agreement with the landowners requires the entity to restore the quarry site by removing all buildings, reshaping the land, and replacing all topsoil. 60% of the eventual restoration costs relate to the removal of the quarry buildings and restoration of the site, and 40% arise through the extraction of gravel. At the reporting date, the quarry buildings have been constructed, and excavation of the site has begun but no gravel has been extracted.

Analysis

Present obligation as a result of a past obligating event – The construction of buildings and the excavation of the quarry creates a legal obligation under the terms of the agreement to remove the buildings and restore the site, and is thus an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the gravel.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of 60% of the eventual costs that relate to the removal of the buildings and restoration of the site (see paragraph 22). These costs are included as part of the cost of the quarry. The 40% of costs that arise through the extraction of gravel are recognised as a liability progressively when the gravel is extracted.

Refunds Policy

IG8. An entity operates as a centralised purchasing agency and allows the public to purchase surplus supplies. It has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the sale of the supplies, which gives rise to a constructive obligation, because the conduct of the entity has created a valid expectation on the part of its customers that the agency will refund purchases.

An outflow of resources embodying economic benefits or service potential in settlement – Probable that a proportion of goods are returned for refund (see paragraph 32).

Conclusion

A provision is recognised for the best estimate of the costs of refunds (see paragraphs 18 (the definition of a constructive obligation), 22, 25, and 32).

Closure of a Division—No Implementation before Reporting Date

IG9. On 12 June 2004, an entity decides to close down a division of its operations. The decision was not communicated to any of those affected before the reporting date (June 30 2004), and no other steps were taken to implement the decision.

Analysis

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 83).

Outsourcing of a Division—Implementation Before the Reporting Date

IG10. On June 12, 2004, an entity decided to outsource a division of its operations. On June 20 2004, a detailed plan for outsourcing the division was agreed by the management of the entity, and redundancy notices were sent to the staff of the division.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be outsourced.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised at June 30 2004 for the best estimate of the costs of outsourcing the division (see paragraphs 22 and 83).

Legal Requirement to Fit Air Filters

IG11. Under new legislation, a local government entity is required to fit new air filters to its public buildings by 31 December 2004. The entity has not fitted the air filters.

Analysis

(a) At the reporting date of June 30 2004

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting air filters or for fines under the legislation.

Conclusion

No provision is recognised for the cost of fitting the filters (see paragraphs 22 and 25–27).

Analysis

(b) At the reporting date of June 30 2005

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting air filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliance of the public buildings).

An outflow of resources embodying economic benefits or service potential in settlement – Assessment of probability of incurring fines and penalties for non-compliance depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion

No provision is recognised for the costs of fitting air filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 22 and 25-27).

Staff Retraining as a Result of Changes in the Income Tax System

IG12. The government introduces a number of changes to the income tax system. As a result of these changes, the taxation department (reporting entity) will need to retrain a large proportion of its administrative and compliance staff in order to ensure continued compliance with financial services regulation. At the reporting date, no retraining of staff has taken place.

Analysis

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

An Onerous Contract

IG13. A hospital laundry operates from a building that the hospital (the reporting entity) has leased under an operating lease. During December 2004, the laundry relocates to a new building. The lease on the old building continues for the next four years; it cannot be cancelled. The hospital has no alternative use for the building and the building cannot be re-let to another user.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the signing of the lease contract, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – When the lease becomes onerous, an outflow of resources embodying economic benefits is probable. (Until the lease becomes onerous, the hospital accounts for the lease under PBE IPSAS 13 *Leases*).

Conclusion

A provision is recognised for the best estimate of the unavoidable lease payments (see paragraphs 13(b), 22 and 76).

A Single Guarantee

IG14. [Deleted by IPSASB]

A Court Case

IG15. After a luncheon in 2004, ten people died, possibly as a result of food poisoning from products sold by a restaurant at a public museum (the reporting entity). Legal proceedings are started seeking damages from the entity, but it disputes liability. Up to the date of authorisation of the financial statements for the year to June 30 2004 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to June 30, 2005, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Analysis

(a) At June 30 2004

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion

No provision is recognised by the museum (see paragraphs 23 and 24). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraphs 100 and 109).

Analysis

(b) At June 30 2005

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 22–24 and 109).

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. PBE IPSAS 17 *Property, Plant and Equipment* gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Refurbishment Costs—No Legislative Requirement

IG17. A furnace for heating a building that is leased out by an entity to a number of tenants has a lining that needs to be replaced every five years for technical reasons. At the reporting date, the lining has been in use for three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

The cost of replacing the lining is not recognised because, at the reporting date, no obligation to replace the lining exists independently of the entity's future actions – even the intention to incur the expenditure depends on the entity deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, that is, it is depreciated over five years. The re-lining costs then incurred are capitalised, with the consumption of each new lining shown by depreciation over the subsequent five years.

Refurbishment Costs—Legislative Requirement

IG18. A cartography service is required by law to overhaul its aircraft used for aerial mapping once every three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in Example 11A. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

Non-Discretionary Grant

IG18.1 Entity XYZ provides development grants (Type A grants) to encourage new businesses. Entity XYZ has a policy to pay Type A grants (of a minimum amount of 10,000) on receipt of an application which is shown to meet various criteria. Entity XYZ's policy of always providing Type A grants and the application criteria for Type A grants are generally known. Entity XYZ cannot refuse to pay the grant if the applicant has met the criteria.

The end of Entity XYZ's reporting period is 30 June. On 30 June 2000, Department M of Entity XYZ had received 10 applications for a Type A grant but had not yet made a decision as to the amount of the grants that will be paid to the applicants. Based on past experience, Entity XYZ expects to pay a total of 2,000,000 to the applicants.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the receipt of an application for a Type A grant that meets the application criteria. A legal obligation exists because Entity XYZ has stated that it will pay the grant to those applicants that meet the criteria.

An outflow of resources embodying economic benefits in settlement – Payment of the grants is probable as at 30 June 2000.

Conclusion

At 30 June 2000, Entity XYZ recognises a provision for the best estimate of the grants (see paragraph 22).

Discretionary Grant

IG18.2 Entity XYZ provides development grants (Type B grants) to encourage new businesses. When an application for a Type B grant is received, a committee considers it for approval. The committee has complete discretion as to whether the grant should be paid.

(a) Applicant notified prior to the balance date

On 15 June 2000, Department M received an application for a Type B grant. Prior to the end of the reporting period (30 June 2000) a committee approved payment of the grant. However, a decision regarding the amount of the grant had not been made. Based on the grants paid to previous applicants, the committee expected that the amount of the grant would be 50,000. The committee's decision to pay the grant (excluding the amount) was communicated to the applicant on 20 June 2000.

Analysis

The obligating event is the communication of the committee's decision to pay the grant. A constructive obligation exists because Entity XYZ has created a valid expectation on the part of the applicant that Department M will pay the grant.

Conclusion

A provision is recognised for the best estimate of the grant in Entity XYZ's 30 June 2000 financial statements (see paragraphs 22 and 25–27).

(b) Applicant notified after the end of the reporting period

On 15 June 2000, Department M received an application for a Type B grant. After the end of the reporting period (30 June 2000) a committee approved payment of the grant and the committee's decision to pay the grant was communicated to the applicant.

Analysis

There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognised (see paragraph 22).

Disclosures

Two examples of the disclosures required by paragraph 98 are provided below.

Warranties

IG19. An entity with responsibility for the prevention of workplace accidents gives warranties at the time of sale to purchasers of its safety products. Under the terms of the warranty, the entity undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the reporting date, a provision of 60,000 currency units has been recognised. The provision has not been discounted, as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 currency units has been recognised for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the reporting date.

Decommissioning Costs

IG20. In 2005, a research facility, which uses a nuclear reactor to develop radio isotopes that are used for medical purposes, recognises a provision for decommissioning costs of 300 million currency units. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million currency units has been recognised for decommissioning costs. These costs are expected to be incurred between 2065 and 2075; however, there is a possibility that decommissioning will *not take place until 2105–2115. If the costs were measured based upon the expectation that they would not be incurred until 2105–2115 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2%.*

Disclosure Exemption

An example is given below of the disclosures required by paragraph 109 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

IG21. A research agency is involved in a dispute with a company, which is alleging that the research agency has infringed copyright in its use of genetic material, and is seeking damages of 100 million currency units. The research agency recognises a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 97 and 98 of the Standard. The following information is disclosed:

Litigation is in process against the agency relating to a dispute with a company that alleges that the agency has infringed patents, and is seeking damages of 100 million currency units. The information usually required by PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets *is not disclosed, on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The board is of the opinion that the claim can be successfully defended by the agency.*

Illustrative Example

This example accompanies, but is not part of, PBE IPSAS 19.

Present Value of a Provision

The following example illustrates the journal entries made on initial recognition of the present value of a provision, and the subsequent recognition of increases in the present value of that provision. The increase in the provision is recognised as an interest expense (paragraph 70).

IE1. The expected value of a provision at the end of year 5 is 2000 currency units. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

IE2. Journal entries to record the provision and changes in the value of the provision each year are as follows:

End of current reporting period			
DR	Expense	1134.85	
CR	Provision		1134.85
End of Year 1			
DR	Interest Expense	136.18	
CR	Provision		136.18
End of Year 2			
DR	Interest Expense	152.52	
CR	Provision		152.52
End of Year 3			
DR	Interest Expense	170.83	
CR	Provision		170.83
End of Year 4			
DR	Interest Expense	191.33	
CR	Provision		191.33
End of Year 5			
DR	Interest Expense	214.29	
CR	Provision		214.29

Calculations:		**Increase**
Current time:	Present value = 2000/(1.12)5 = 1134.85	
End of Year 1:	Present value = 2000/(1.12)4 = 1271.04	136.18
End of Year 2:	Present value = 2000/(1.12)3 = 1423.56	152.52
End of Year 3:	Present value = 2000/(1.12)2 = 1594.39	170.83
End of Year 4:	Present value = 2000/(1.12)1 = 1785.71	191.33
End of Year 5:	Present value = 2000/(1.12)0 = 2000.00	214.29

Comparison with IPSAS 19

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* is drawn from IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets.*

The significant differences between PBE IPSAS 19 and IPSAS 19 are:

(a) PBE IPSAS 19 excludes from its scope certain obligations expressed in legislation that have characteristics similar to an executory contract. This scope exclusion is available only to the Crown. In contrast, IPSAS 19 excludes from its scope provisions and contingent liabilities arising from social benefits within the scope of IPSAS 42 *Social Benefits*.

(b) PBE IPSAS 19 does not contain application guidance on collective and individual services.

(c) PBE IPSAS 19 contains, as integral guidance, three interpretations that formed part of NZ IFRSs prior to the development of PBE Standards. These three interpretations are:

   (i) NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*;

   (ii) NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*; and

   (iii) NZ IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment*.

(d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

History of Amendments

PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 19. The table is based on amendments issued as at 31 December 2022 other than consequential amendments resulting from adoption of PBE IFRS 17 *Insurance Contracts*.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2015 Omnibus Amendments to PBE Standards	July 2015	Early application is permitted	1 Jan 2016
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017
PBE IPSAS 35 *Consolidated Financial Statements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 37 *Joint Arrangements*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IFRS 9 *Financial Instruments*	Jan 2017	Early application is permitted	1 Jan 2022[1]
PBE IPSAS 39 *Employee Benefits*	May 2017	Early application is permitted	1 Jan 2019
PBE FRS 48 *Service Performance Reporting*	Nov 2017	Early application is permitted	1 Jan 2022[2]
PBE IPSAS 41 *Financial Instruments*	Mar 2019	Early application is permitted	1 Jan 2022
PBE IPSAS 40 *PBE Combinations*	July 2019	Early application is permitted	1 Jan 2021
PBE IFRS 17 *Insurance Contracts*	July 2019	Early application is permitted	1 Jan 2023[3]
2022 Omnibus Amendments to PBE Standards	June 2022	Early application is permitted	1 Jan 2023

Table of Amended Paragraphs in PBE IPSAS 19		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 1(h)	Added	*2015 Omnibus Amendments to PBE Standards* [July 2015]
Paragraph 1	Amended	PBE IPSAS 40 [July 2019]
Paragraph 4	Amended	PBE IPSAS 41 [Mar 2019]

[1] PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled. *Effective Date of PBE IFRS 9*, issued in March 2019, deferred the effective date of PBE IFRS 9 from 1 January 2021 to 1 January 2022.

[2] *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

[3] PBE IFRS 17 has not been compiled. *Amendments to PBE IFRS 17*, issued in August 2020, deferred the effective date of PBE IFRS 17 from 1 January 2022 to 1 January 2023.

Table of Amended Paragraphs in PBE IPSAS 19		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 4A	Added	PBE IPSAS 40 [July 2019]
Paragraph 14	Amended	PBE IPSAS 39 [May 2017]
Paragraph 18	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 19	Amended	PBE FRS 48 [Nov 2017]
Paragraph 37	Amended	PBE IPSAS 37 [Jan 2017]
Paragraph 79A	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph 80	Amended	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph 110A	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph 112.2	Added	*2015 Omnibus Amendments to PBE Standards* [July 2015]
Paragraph 112.3	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 112.4	Added	PBE IPSAS 35 and PBE IPSAS 37 [Jan 2017]
Paragraph 112.5	Added	PBE IFRS 9 [Jan 2017]
Paragraph 112.5	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 112.6	Added	PBE IPSAS 39 [May 2017]
Paragraph 112.7	Added	PBE IPSAS 40 [July 2019]
Paragraph 112.8	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 112.10	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph 112.11	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph A1 (and preceding heading)	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph A2 (and preceding heading)	Added	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraphs A3-A8	Renumbered (originally numbered as paragraphs A1-A6)	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph A6	Amended	PBE FRS 48 [Nov 2017]
Paragraph A6	Amended	*2022 Omnibus Amendments to PBE Standards* [June 2022]
Paragraph B3	Amended	PBE IPSAS 35 [Jan 2017]