



<b>Project:</b>	<b>IPSASB Update</b>	<b>Meeting</b>	AASB September 2019 (M172)
<b>Topic:</b>	<b>Report on June 2019 Meeting of the IPSASB</b>	<b>Agenda Item:</b>	16.1
		<b>Date of Agenda Paper:</b>	10 September 2019
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		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Report

## Introduction and objective of the meeting

The objective for this meeting is to discuss significant matters arising from the June 2019 meeting of the International Public Sector Accounting Standards Board.

## Attachments

16.2 Report from the IPSASB Consultative Advisory Group (CAG) meeting, June 2019 [prepared by Karen Sanderson, CAG member]

## Background

The second meeting for 2019 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Toronto, Canada, on 18–21 June, hosted by Chartered Professional Accountants Canada. The meeting was preceded by a meeting of the Consultative Advisory Group to the Board on 17 June. The periodic international Public Sector Standard-Setters Forum was held following the IPSASB meeting.

Mike Blake and Clark Anstis attended the meetings as the Australian member (and also Deputy Chair) of IPSASB and Technical Advisor respectively. AASB staff member Patricia Au also attended the meetings.

This report summarises the key technical matters and outcomes from the meetings and operational and strategic matters.

The next meeting of the IPSASB will be held in Lisbon, Portugal, in September 2019, hosted by the Portuguese Ministry of Finance.

## 1 Key Technical Matters and Outcomes

### Areas of Possible Risk/Opportunity for the AASB (in no particular order)

The AASB should monitor the following IPSASB developments because divergence with Australian Accounting Standards as these impact the public sector might be an outcome, if

IPSASB-specific requirements were not considered appropriate for incorporation into Australian Accounting Standards. Alternatively, IPSASB developments may complement AASB work underway or provide opportunities the AASB may wish to take on board:

- The IPSASB’s project on Public Sector Measurement could inform the AASB’s current Public Sector Fair Value Measurement project:
  - guidance on applying common measurement bases, including fair value and replacement cost, is being developed;
  - the IPSASB Consultation Paper (April 2019) states its preliminary view that all borrowing costs should be expensed, with no capitalisation option, which would be inconsistent with Australian Accounting Standards (and IFRS Standards); and
  - measurement bases specified in current IPSAS that are inconsistent with the IPSASB Conceptual Framework might be changed through this project.
- The Revenue project is considering issues that the AASB addressed in its Income of Not-for-Profit Entities project, which culminated in AASB 1058 and Appendix F to AASB 15. The project outcomes are now expected to be more consistent with the AASB pronouncements than the proposals in the IPSASB Consultation Paper, but there could be differences of detail, such as the criteria for the enforceability of binding arrangements.
- The Grants and Transfers: Expenses project (updating IPSAS 19 and 23) is addressing issues that are largely not covered in Australian Accounting Standards and thus IPSASB requirements could form the basis for Australian not-for-profit requirements developed by the AASB, such as collective and individual services, or transfer expenses.
- The Leases project is considering the accounting for concessionary leases, which are partially addressed in AASB 16. However, the lessor accounting proposals in IPSASB ED 64 (for both normal and concessionary leases) met a very mixed response and are being reconsidered.
- The IPSASB has approved for issue ED 69 on public sector specific financial instruments, covering monetary gold, currency in circulation, and IMF quota subscriptions and special drawing rights. Public sector additions to AASB 9 *Financial Instruments* could be based on the IPSASB’s work once it has finalised amendments to IPSAS 41 *Financial Instruments*.

## Revenue

The IPSASB has decided that enforceable (binding) arrangements would be accounted for under an IFRS 15-aligned Standard, with additional guidance for applying the five-step public sector performance obligation approach (PSPOA). Non-enforceable arrangements would be accounted for under an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The next project output will be two Exposure Drafts, proposing replacements for IPSAS 23 and IPSAS 9 *Revenue from Exchange Transactions*. Updated revised versions of the EDs will be considered at the next meeting.

### *IFRS 15 Alignment – Revenue with Performance Obligations*

At this meeting, the IPSASB largely finalised the core text of an Exposure Draft “Revenue with Performance Obligations” (to be ED 70), and will now address further illustrative examples for public sector circumstances, so that the examples are complete and readers are not required to go to IFRS 15 for examples that would apply directly.

To address a particular public sector issue, the IPSASB will consider adding a new disclosure requirement for entities that are compelled to provide goods or services when collectibility of the full consideration is not probable, such as amounts billed but not collected.

## *IPSAS 23 Update – Revenue without Performance Obligations*

The update of IPSAS 23 will be addressed through an Exposure Draft “Revenue without Performance Obligations” (to be ED 71). This will cover transactions that are unenforceable (do not arise from a binding arrangement) or that do not have performance obligations. The basic approach will specify that revenue should be recognised when amounts are receivable, rather than over time. Members did not support applying an “other obligations” approach, which is referred to in the IPSASB’s Conceptual Framework.

In considering capital grants, which typically are enforceable arrangements that do not have performance obligations as defined, the IPSASB decided to address at the September 2019 meeting whether such transactions could have present obligations (thus supporting the initial recognition of a liability rather than revenue) even if they did not have performance obligations. [In AASB 1058, the AASB concluded that recognising a liability in respect of capital grants was an exception, thus taking the view that there was no present obligation in the absence of performance obligations.]

### Transfer (Non-Exchange) Expenses – Grants, Contributions, Other Transfers

The IPSASB again discussed the scope of the draft Exposure Draft (to be ED 72), which will address the accounting by the resource provider for transactions with or without performance obligations for the resource recipients (excluding those transactions covered by other Standards, such as IPSAS 42 *Social Benefits*). The IPSASB decided to define a *transfer* based on the GFS definition as a transaction in which a “transfer provider” provides a good, service or asset to another entity without receiving any good, service or asset. Research grants where the research is provided to the transfer provider therefore would be excluded.

The IPSASB discussed how the transfer provider should account for subsidies or premiums provided in a transaction to the resource recipient (i.e. consideration in excess of the fair value of services to be provided by the resource recipient). The IPSASB’s proposal is to account for the subsidy separately if it is identifiable and material.

The requirements of IFRIC Interpretation 21 *Levies* are expected to be included in the ED.

The accounting for transfers is to be developed further in conjunction with the IPSAS 23 revisions. Presentation requirements are to be considered at the September 2019 meeting in conjunction with the revenue EDs.

### Leases

The approach to resolving the lessor accounting issues raised in the responses to ED 64 *Leases* (issued in January 2018) was again discussed at the meeting. The project Task Force (chaired by Mike Blake) will fully reconsider the lessor accounting proposed in ED 64, which would diverge from IFRS 16 rather than retain the operating lease/ finance lease distinction, and make recommendations for the IPSASB’s consideration. The IPSASB intends to confirm or reject the divergence from IFRS 16 at the September meeting.

The ED proposed that a lessor would recognise a lease as a separate resource (a lease receivable) to the underlying asset, which would continue to be recognised by the lessor. A bare majority of the respondents to ED 64 agreed with departing from the IFRS 16 model, but most of those did not then agree with the ED’s proposed accounting.

The IPSASB received presentations from Kimberley Crook of the New Zealand Accounting Standards Board and David Bean of the US Governmental Accounting Standards Board (GASB),

taking opposing views on the accounting by lessors. The GASB has issued Statement 87 (June 2017) in which it requires State and local governments to apply the accounting proposed by the IPSASB in ED 64. In the GASB's view, the lease is a separate transaction that does not require amendment of the accounting for the underlying asset. The issue of potentially double counting assets is less significant in jurisdictions where assets are typically measured at historical cost, although recognition methods should not be determined by the effect of measurement methods.

### Heritage Assets

The scope of this project is limited to the recognition and measurement of heritage in financial statements, and not to additional stewardship matters. At this meeting, the IPSASB decided that an operational/non-operational distinction in how heritage assets are used by an entity is not helpful in addressing recognition or measurement for the assets.

The IPSASB considered that a separate IPSAS on heritage assets would not be required, and requested the Task Force to clarify the issues that the IPSASB should address, such as identifying which IPSAS might need heritage-asset-related guidance, whether on recognition, measurement or presentation/disclosure matters. Significant issues include the assessment of control in relation to collective ownership or custodianship, and how to deal with the likely measurement difficulties.

An updated project plan is expected for the September meeting, along with papers addressing some of the issues.

### Infrastructure Assets

The IPSASB considered and approved a revised project brief for this project, which was reactivated for this meeting. The original project brief had been approved by the IPSASB in 2015, but the project had been deferred after initial discussions in the second half of 2017 in favour of more important projects. Issues to be addressed are expected to include distinguishing capital and maintenance expenditure, deferred maintenance and measurement.

The revised project brief anticipates an exposure draft, but does not presume the appropriate output. It is possible that the output might be amendments only to IPSAS 17 *Property, Plant and Equipment* or to its application guidance. A Task Force has been appointed to facilitate the work, with the discussion of infrastructure issues to commence at the September meeting.

### Public Sector-Specific Financial Instruments

The IPSASB's Financial Instruments Task Force is working on this project outside Board meetings. This project is considering the accounting for monetary gold, currency in circulation, IMF quota subscriptions and IMF special drawing rights (SDRs), based on a 2016 Consultation Paper.

The Task Force met in October 2018 to consider whether those public sector-specific financial instruments are financial instruments covered by IPSAS 41 *Financial Instruments*. The Task Force concluded that currency and the IMF subscriptions and SDRs were financial instruments, and proposed adding guidance to IPSAS 41. The Task Force noted that monetary gold shared some characteristics with financial assets, and proposed to illustrate in IPSAS 41 that it is appropriate to account for monetary gold by applying the financial asset principles in certain circumstances.

The draft Exposure Draft prepared by the Task Force was approved for issue by the IPSASB. The comment deadline will be 31 December 2019.

## 2 Operational and Strategic Matters

### Meeting Attendance, Board Membership and Staffing

The total membership complement comprises 18 members. All members attended the meeting.

The IPSASB currently has its full complement of eight full-time technical staff.

### Strategic Matters

#### *Canadian Government Funding*

The IPSASB is close to finalising its next five-year funding agreement with the Canadian Government through the Treasury Board of Canada. The agreement will cover the period up to 2025.

#### *Public Interest Committee*

The IPSASB Chair and senior staff last met with the Public Interest Committee (PIC) in March 2019. The PIC oversees the activities of the IPSASB in the public interest and comprises representatives from the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Supreme Audit Institutions (INTOSAI).

The PIC also discussed the review of the IPSASB's governance arrangements that is due in 2020, suggesting that this does not appear to require a major review given the short time during which the current arrangements have been in place and the lack of significant concerns over the IPSASB's terms of reference and governance practice.

#### *IASB Liaison*

The IPSASB Chair and senior staff meet periodically with IASB members and staff. The most recent meeting reported was in March 2019. No IASB member or staff has attended an IPSASB meeting for some time.

#### *European Public Sector Accounting Standards*

Eurostat is co-ordinating the European Commission project to consider the development and promulgation of European Public Sector Accounting Standards (EPSAS). The IPSASB Standards are likely to provide a foundation for the European Standards, but there are likely to be some differences. No timeline is indicated.

The Eurostat observer reported to the meeting that the co-ordinating EPSAS Working Group met in May, discussing topics including other comprehensive income, heritage, grants and transfers, consolidation, and natural resources. Eurostat has reported that usage of public sector financial statements is increasing. An impact assessment is being prepared.

## 3 Future IPSASB Meetings

<b>Dates</b>	<b>Location</b>	<b>Host</b>
24–27 September 2019	Lisbon, Portugal	Ministry of Finance, Portugal

<b>Dates</b>	<b>Location</b>	<b>Host</b>
10–13 December 2019	Abu Dhabi, UAE	Department of Finance, Abu Dhabi
10–13 March 2020	New York, NY, USA	IFAC
23–26 June 2020	Toronto, Canada	Chartered Professional Accountants Canada
15–18 September 2020	(TBA)	
8–11 December 2020	Toronto, Canada	Chartered Professional Accountants Canada

#### Related meetings

<b>Dates</b>	<b>Location</b>	<b>Meeting</b>
9 December 2019	Abu Dhabi, UAE	IPSASB Consultative Advisory Group
22 June 2020	Toronto, Canada	IPSASB Consultative Advisory Group
7 December 2020	Toronto, Canada	IPSASB Consultative Advisory Group

#### **4 2019 Public Sector Standard-Setters Forum**

The international Public Sector Standard-Setters Forum was held on 24-25 June at Niagara-on-the-Lake, supported by CPA Canada and the Public Sector Accounting Board (PSAB) of Canada. The Forum, themed *Designing the next stage of the global accrual journey*, was attended by approximately 80 participants from around the world.

The keynote speaker was Jacob Soll, from the University of Southern California, discussing historical perspectives on the modern challenges of accountability and financial transparency. Jacob expressed great support for the work of the IPSASB.

Participants discussed the themes from the IPSASB Strategy and Work Plan 2019-2023 in small groups, with reporting back in plenary sessions:

- Themes A and B: Delivering global standards – setting standards on public sector specific issues and maintaining IFRS convergence;
- Theme C: Developing guidance to meet users’ broader financial reporting needs;
- Theme D: Inspiring implementation – promoting IPSAS adoption and implementation; and
- Theme E: Inspiring implementation – advocating the benefits of accrual in strengthening public financial management (PFM).

The newly committed IPSASB projects of natural resources and a limited review of the Conceptual Framework were also discussed, as well as plans for international research projects to assist the IPSASB to develop standard-setting proposals. The suggested topics for the initial research projects are differential reporting, discount rates, presentation of financial statements in the public sector, and tax expenditures. Further consideration of the proposed terms of reference for the research panels is needed to ensure that they will attract interest from the best contributors.