



<b>Project:</b>	<b>IPSASB Update</b>	<b>Meeting</b>	AASB March 2020 (M174)
<b>Topic:</b>	<b>Report on December 2019 Meeting of the IPSASB</b>	<b>Agenda Item:</b>	5.1
		<b>Date of Agenda Paper:</b>	19 February 2020
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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 December 2019 meeting of the International Public Sector Accounting Standards Board.

## Background

The fourth and final meeting for 2019 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Abu Dhabi, United Arab Emirates, on 10–13 December, hosted by the Abu Dhabi Department of Finance. This meeting was preceded by a meeting of the IPSASB’s Consultative Advisory Group (CAG).

Mike Blake and Clark Anstis attended the meeting as the Australian member (and also Deputy Chair) of IPSASB and Technical Advisor respectively.

This report summarises possible implications for the AASB, the key technical matters and outcomes from the IPSASB meeting, and operational and strategic matters.

The next meeting of the IPSASB will be held in New York, United States of America, in March 2020, hosted by IFAC.

## 1 Possible Risks and Opportunities for the AASB

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 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. At the December meeting, the IPSASB approved Exposure Drafts on revenue with performance obligations (ED 70) and without performance obligations (ED 71). ED 71

proposes an approach to revenue without performance obligations that would differ significantly from the AASB's approach in AASB 1058. For example, present obligations could be identified where there are enforceable arrangements that require the outflow of economic resources but which don't qualify as performance obligations, such as enforceable activities (e.g. capital grants) or incurring eligible expenditure. The IPSASB's equivalent to IFRS 15, applying to revenue with performance obligations (ED 70), is expected to be consistent with AASB 15.

- The Transfer Expenses project 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. Transfers might be accounted for by the transfer provider by mirroring the transfer recipient's revenue accounting. For example, this could require the transfer provider to recognise an asset until the good/service/other asset provided to the transfer recipient has been transferred to a third-party beneficiary and the transfer recipient reduces their liability and recognises revenue, provided the transfer provider can monitor the transfer recipient's actions. ED 72 was approved at the December meeting.
- Application guidance on Collective and Individual Services was approved by the IPSASB at the September meeting (for publication in January 2020). The guidance is added as an integral part of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. The guidance states that no provision is recognised for an entity's intention to deliver collective and individual services, so expenses are recognised only when the services are provided. There are no corresponding, explicit requirements in Australian Accounting Standards. The AASB could consider whether to add this guidance to AASB 137.
- The Leases project is considering the accounting for leases by lessees and lessors, including 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 the approach to the project is being reconsidered by the IPSASB.
- 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). Mixed views were presented in submissions on the CP; and
  - measurement bases specified in current IPSAS that are inconsistent with the IPSASB Conceptual Framework might be changed through this project.
- The IPSASB issued ED 69 *Public Sector Specific Financial Instruments: Amendments to IPSAS 41 Financial Instruments* in August 2019, with a comment deadline of 31 December 2019, 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*.
- The IPSASB's projects on heritage assets and infrastructure assets could develop requirements or guidance that the AASB could add to AASB 116.

## 2 Key Technical Matters and Outcomes

### Revenue

The IPSASB has decided that enforceable (binding) arrangements with performance obligations should be accounted for under an IFRS 15-aligned Standard, with additional guidance for applying the five-step public sector performance obligation approach (PSPOA). Other enforceable and non-enforceable arrangements would be accounted for under an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Exposure Drafts ED 70 and ED 71, proposing replacements for IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23 respectively, were approved at the December meeting.

The EDs are expected to be published at the end of February 2020, following an editorial review process, with a six-month comment period to the end of August.

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

At this meeting, the IPSASB addressed issues relating to definitions, such as ‘binding arrangement’, and the scope of disclosures, to ensure consistency between EDs 70 and 71 when appropriate. The IPSASB decided to propose in ED 70 the disclosures required in IFRS 15, in the absence of a public sector reason to be different.

The ED will include specific proposals in relation to matters such as identifying donation components of a transaction with performance obligations and disclosures regarding the provision of goods or services required by law when collectability of the full consideration is not probable, such as amounts billed but not collected. ‘Transaction price’ would reflect the consideration to which an entity expects to be entitled, rather than the agreed consideration.

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

The IPSASB decided to exclude taxes from transfers, which are inflows of future economic benefits or service potential from transactions without performance obligations, other than contributions by owners. This is consistent with the present approach in IPSAS 23, and would leave the IPSAS requirements for taxes unchanged.

ED 71 will cover transactions that are unenforceable (do not arise from a binding arrangement) or that do not have performance obligations. The basic approach for unenforceable transactions will propose that revenue should be recognised by the transfer recipient when amounts are receivable, rather than over time.

The ED will also propose that binding arrangements without performance obligations may result in present obligations for the recipient, such as enforceable requirements for specified activities or eligible expenditure. Under this view, a present obligation does not arise only when there is a breach of the arrangement. The liability would be measured based on the assets received. Revenue would be recognised when or as the present obligations are satisfied. Capital transfers will be addressed in terms of present obligations to be satisfied over the construction period, thus excluding grants for post-construction operating costs. [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.]

ED 71 will propose that transfers subject to appropriations should be recognised as revenue only when the recipient has control of the resources, which might depend on jurisdictional factors.

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

The IPSASB approved ED 72 *Transfer Expenses*, to be published at the end of February 2020, following an editorial review process, with a six-month comment period to the end of August. This ED will continue to be progressed in tandem with the Revenue EDs.

ED 72 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 resource provider does not receive directly any good, service or other asset in return.

The ED will propose that transfers that impose performance obligations on the recipient should be accounted for by mirroring the transfer recipient's revenue accounting. This could result in the transfer provider recognising an asset until the good/service/other asset provided to the transfer recipient has been transferred to a third-party beneficiary and the transfer recipient reduces their liability and recognises revenue, if the transfer provider is able to monitor the transfer recipient's actions.

Transfers without performance obligations for the recipient would be expensed by the transfer provider at the earlier of the point at which the provider has a present obligation to transfer the resources or else loses control of the resources (e.g. when the transfer is made). The IPSASB also decided that transfers conditional on appropriations would give rise to an obligation only for the current appropriation period.

## 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 this 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 small 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. Based on work by the project Task Force, the IPSASB had tentatively concluded previously that the lessor accounting proposed in ED 64 was justified conceptually.

However, at this meeting, the IPSASB reconsidered the objective of the project, and the possible approaches of retaining the existing IPSAS 13 *Leases*, developing a revised Standard more closely aligned with IFRS 16, and continuing to develop the proposals in ED 64. This will be considered further at the March 2020 meeting.

## Public Sector Measurement

The IPSASB published a Consultation Paper *Measurement* in April 2019, for comment by the end of September 2019. The CP included an "illustrative" Exposure Draft *Measurement*, originally with a view (encouraged by the Public Interest Committee) to expediting the subsequent finalisation of an initial Standard. However, it now appears that a draft Standard based on the illustrative ED would be exposed for comment alongside an ED based on the Consultation Paper (CP).

The Illustrative ED proposed definitions of ("the what") and application guidance ("the how") for the following primary measurement bases in the public sector:

- cost of fulfillment
- fair value

- historical cost
- replacement cost (as an entry measure).

The CP addressed generally the application of the measurement principles in the IPSASB Conceptual Framework to assets and liabilities, and some related items such as borrowing costs and transaction costs. Other matters, such as the distinction between fair value and market value (only the latter is specified in the IPSASB's Conceptual Framework) remain to be addressed in the subsequent formal ED. The Illustrative ED incorporated the requirements of IFRS 13 *Fair Value Measurement*, including its application guidance. Measurement bases required to be applied (“the which”) would continue to be specified in other IPSAS. Consequential amendments to other IPSAS to change required measurement bases would require a formal ED.

At this meeting, the IPSASB gave preliminary consideration to the thirty-one submissions received. The issues raised in the submissions will be considered more fully at the March 2020 meeting, with potentially a draft ED to be considered at the September meeting. The project Task Force will be reactivated to assist in analysing the issues raised.

The IPSASB noted the significant split of views in the submissions on the treatment of borrowing costs (i.e. whether to expense, capitalise, or permit either approach). The IPSASB also noted that members of the Consultative Advisory Group were split over this as well, and posited that the IPSASB might decide to leave the option in place, and apply its limited resources to other public sector issues instead.

#### Heritage Assets

The scope of this project is limited to the recognition and measurement of heritage in financial statements, thus excluding additional stewardship matters. The IPSASB is considering whether heritage asset-related guidance (authoritative or otherwise) should be added to current IPSAS, rather than developing a separate Standard.

This project had been included on the agenda for the December meeting but was not considered, as additional meeting time was needed for the IPSASB's consideration of the revenue and transfer expenses EDs.

#### Infrastructure Assets

The output of this project might be amendments only to IPSAS 17 *Property, Plant and Equipment* or to its application guidance. The IPSASB revised a flowchart developed by the project Task Force for deciding whether authoritative or non-authoritative guidance is required on a particular matter, and will apply the flowchart in other projects as well, such as heritage assets.

The IPSASB applied the flowchart to decide that non-authoritative guidance was required in respect of separating land under or over infrastructure assets from the infrastructure assets, and that authoritative guidance was required in relation to the control of and the measurement of land under or over infrastructure assets. The IPSASB can then develop that guidance through its usual due processes. The discussion of infrastructure issues will continue at the next meeting.

#### Improvements to IPSAS

The IPSASB approved minor amendments to IPSAS, after considering the submissions received on the proposals in ED 68 *Improvements to IPSAS, 2019*. For example, the amendments clarify that the IPSASB's impairment Standards apply to individual assets as well as to classes of assets.

### **3 Operational and Strategic Matters**

#### Meeting Attendance, Board Membership and Staffing

The total membership complement comprises 18 members. One member did not attend this meeting – the member from South Korea.

#### *Board Appointments* [as previously reported]

The membership terms of six members conclude at the end of 2019. Two members are being reappointed, as follows:

- Lindy Bodewig (South Africa) – for three years;
- Chris Nyong (Nigeria) – for three years.

Four members are retiring from the IPSASB:

- Stuart Barr (Canada) – one of two Canadian members on the board;
- Francesco Capalbo (Italy);
- Aracelly Mendez (Panama); and
- Leonardo Nascimento (Brazil).

The four new members from the start of 2020, appointed for three years and eligible for reappointment, are:

- Kamira Sanchez Nicosia (Panama) – Ministry of Finance;
- Ajith Ratnayake (Sri Lanka) – experience with IPSAS adoption in Sri Lanka;
- D. Scott Showalter (USA) – academic, formerly Chair of the US Government’s Federal Accounting Standards Advisory Board (FASAB); and
- Patricia Varela (Brazil) – academic, former standard-setter.

#### *Staffing*

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

John Stanford will step down as Technical Director at the end of February 2020, continuing in a part-time technical role. Ross Smith, the current Deputy Technical Director, will become Program and Technical Director.

#### Governance Matters

##### *Consultative Advisory Group*

The IPSASB’s Consultative Advisory Group (CAG) met for the second time this year, with a fair level of attendance – 17 of the 25 members were present, and eight were absent. The former Australian representative, Karen Sanderson, previously of NSW Treasury, attended. Eleven IPSASB members also observed the CAG meeting, which was more than for previous meetings.

##### *Public Interest Committee*

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 has not met since the previous (September) meeting of the IPSASB. The PIC will carry out a limited review of the IPSASB's governance arrangements. A survey is open for comment until 24 February 2020.

### *Funding*

The Canadian Government has confirmed its next five-year funding agreement through the Treasury Board of Canada. The agreement covers the period up to March 2025.

The Asian Development Bank has confirmed its 2019-21 funding agreement.

### Strategic Matters

#### *GFS Alignment*

The IPSAS/GFS tracking table is being updated. The IPSASB hopes to hold a workshop with the IMF in mid-2020 to assess the differences between IPSAS and GFS.

#### *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 IPSASB meeting that the Cell on Principles met in October to consider how IPSAS would be assessed for suitability. Engagement with the new European Parliament, Commission and Commissioner for Economic and Financial Affairs on the EPSAS program is underway.

## **4 Future IPSASB Meetings**

<b>Dates</b>	<b>Location</b>	<b>Host</b>
10–13 March 2020	New York, NY, USA	IFAC
23–26 June 2020	Toronto, Canada	Chartered Professional Accountants Canada
15–18 September 2020	Paris, France	(to be advised)
8–11 December 2020	Toronto, Canada	Chartered Professional Accountants Canada

Related meetings

<b>Dates</b>	<b>Location</b>	<b>Meeting</b>
22 June 2020	Toronto, Canada	IPSASB Consultative Advisory Group
7 December 2020	Toronto, Canada	IPSASB Consultative Advisory Group