

Report: International Public Sector Accounting Standards Board (IPSASB) Meeting 4 – 7 December 2018 Kuala Lumpur, Malaysia

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The fourth and final meeting for 2018 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Kuala Lumpur in December, hosted by the Malaysian Institute of Accountants.

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

The next meeting of the IPSASB will be held in Washington DC, United States of America, in March 2019, hosted by the World Bank.

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 Social Benefits project has been completed with the approval of International Public Sector Accounting Standard IPSAS 42, *Social Benefits* which differs from the AASB's preferred recognition basis for social benefits, but might not be too different from current practice. The AASB should consider whether to develop an Australian Standard based on IPSAS 42 or amend AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* if appropriate.
- The IPSASB's project on Public Sector Measurement could inform the AASB's current Fair Value Measurement project:
 - guidance on applying measurement bases, including fair value, is being developed;
 - the IPSASB is likely to propose the expensing of borrowing costs with no capitalisation option, which would be inconsistent with Australian Accounting Standards; and
 - measurement bases specified in current IPSAS that are inconsistent with the IPSASB Conceptual Framework might be changed.
- 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 may 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 approach to time-based requirements and the role of enforceability.
- The Non-Exchange 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.

Social Benefits – Standard approved

The IPSASB approved IPSAS 42 *Social Benefits* at the December meeting, to apply to periods beginning on or after 1 January 2022, concluding the long-running project. The Standard takes a narrow view of liabilities for social benefits, based on the ‘obligating event approach’ as exposed in ED 63 *Social Benefits* – now renamed the ‘general approach’. The alternative, optional insurance approach has been retained.

The IPSASB considered including an option in the IPSAS to apply the broader view of social benefit liabilities that was exposed in ED 63 as the Alternative View. However, as this accounting basis would be inconsistent with the general approach, the option was not included.

The definition of social benefits is based on cash transfers (or cash-equivalent transfers) to eligible beneficiaries to mitigate social risks, and therefore clearly distinguished from “individual” (previously called universally accessible) services and collective services. The coverage of cash-equivalent transfers means that the scope of social benefits under the IPSAS differs from social protection under GFS.

Disclosure requirements include the key characteristics of social benefit schemes (such as the nature of the benefits, contribution arrangements and funding) and key demographic and economic factors that influence the level of expenditure under a social benefit scheme. Schemes meeting the insurance criteria are required to be identified as such, even if the general approach is applied instead of the insurance approach.

Narrow-Scope Amendments – Standard approved

Responses to ED 66 *Long-term Interests in Associates and Joint Ventures and Prepayment Features with Negative Compensation* were considered. The IPSASB approved the amendment Standard for issue, to apply to periods beginning on or after 1 January 2022.

These amendments are the same as the AASB made in AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* and AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* (both December 2017). Both of these Standards apply to periods beginning on or after 1 January 2019.

Public Sector Measurement

The IPSASB is developing a combined Consultation Paper *Public Sector Measurement* and an Exposure Draft *Measurement*, originally with a view to expediting the subsequent finalisation of an initial Standard, hopefully to shorten the time taken for the project overall. This approach responded to comments by the Public Interest Committee (PIC) regarding shortening the time taken to develop Standards where feasible. However, it now appears that the draft Standard to come out of the ED will be again exposed for comment with an ED based on the Consultation Paper (CP).

The Exposure Draft for a measurement IPSAS is expected to propose definitions of (“the what”) and application guidance (“the how”) for all or some (depending on timing) of the following measurement bases, which are relevant to the public sector:

- assumption price
- cost of fulfillment – draft material considered at the December meeting
- fair value – draft material considered at the December meeting
- historical cost – draft material considered at the December meeting
- market value
- net selling price
- replacement cost – draft material considered at the December meeting.

For example, the Exposure Draft will incorporate the requirements of IFRS 13 *Fair Value Measurement*, including its application guidance. And at this meeting, the possibility of the ED also covering the measurement of assets held for sale or disposal was first raised – not an equivalent of IFRS 5, but some principles? The measurement bases not addressed in the ED will be moved to the CP.

The Basis for Conclusions to the ED is expected to cover why the various measurement bases could be selected for application.

Measurement bases required to be applied (“the which”) would continue to be specified in other IPSAS. Therefore, the CP is expected to consider the appropriate public sector measurement bases for assets and liabilities, and related items such as borrowing costs and transaction costs. The CP is also likely to consider at a high level whether consequential amendments to the measurement requirements in existing IPSAS might be warranted. A further ED or EDs would be required to propose any such consequential amendments, whether to move application guidance out of existing IPSAS that would now be covered by the Measurement IPSAS and to change the measurement requirements.

The CP and initial ED are not expected to be published for comment until well into 2019, assuming approval at the March 2019 meeting.

Revenue

IFRS 15 Alignment

The IPSASB is working on adding guidance for applying the five-step performance obligation approach of IFRS 15 to the public sector – calling it the public sector performance obligation approach (PSPOA). The general issue is the extent to which the PSPOA can be applied beyond the commercial revenue transactions that would be covered in an IPSAS equivalent to IFRS 15 *Revenue from Contracts with Customers*.

The IPSASB had sought a more general term than ‘customer’ for use in the public sector, and at this meeting decided to use the term ‘purchaser’ instead. Guidance is expected to be added to the PSPOA to address the initial recognition of revenue when collectability is in question, with the impairment recognised after the gross revenue is recognised.

Enforcement mechanisms were discussed at the previous meeting. At this meeting, the IPSASB decided that enforceable arrangements would be accounted for under the IFRS 15-based Standard, and non-enforceable arrangements would be accounted for under an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Grants and Transfers

The IPSASB agreed that time restrictions, where the resource provider restricts the time period for which resources can be used, are not performance obligations. If grants have

enforceable time restrictions, then immediate revenue recognition would appear to be justified in accordance with the PSPOA unless there were performance obligations otherwise under a grant.

Non-enforceable time restrictions would be covered under an updated IPSAS 23. Expectations about revenue recognition could be disclosed, with recognition when the revenue is receivable. Deferral through net equity (net financial position) as “other obligations” (as defined in the Conceptual Framework) was not supported.

Updated versions of an IFRS 15 equivalent and of IPSAS 23 will be considered at the March 2019 meeting.

Non-Exchange Expenses – Collective and Individual Services, and Emergency Relief

The IPSASB reviewed and approved an Exposure Draft ED 67 *Collective and Individual Services and Emergency Relief* at the meeting, which is expected to be issued in January 2019 for public comment by the end of May. The ED will propose the addition of application guidance to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

Collective services are services provided simultaneously to all members of the community, such as street lighting and defence services, to address the needs of society. Individual services, previously called “universally accessible services”, cover goods and services provided to individuals and/or households to address societal needs, such as education and health care. The ED will propose that any obligations that may arise for the provision of collective and individual services are not independent of the public sector entity’s future actions, and thus do not give rise to a liability for the entity prior to the delivery of the goods or services.

Emergency relief covers cash transfers, goods, services and assets provided by public sector entities in emergency circumstances to address the needs of specific individuals and households, rather than society as a whole. The ED will distinguish a government’s or entity’s ongoing emergency relief work from emergency relief provided in response to specific emergencies.

The delivery of emergency relief in specific emergencies requires an explicit policy decision. The ED will propose that a provision would be required when a present obligation arises. This could be the outcome of a government/entity announcement, legislation or other action. If there is no present obligation, disclosure of a contingent liability might be required in accordance with IPSAS 19.

For ongoing emergency relief work, the government/entity would not recognise a provision where the work is an ongoing activity analogous to the delivery of collective and individual services. Otherwise, IPSAS 19 would be applied to determine whether a provision or a contingent liability is required.

Leases

The issues raised in the responses to ED 64 *Leases* (issued in January 2018) were further considered at this meeting.

The IPSASB agreed to adopt the lessee accounting proposed in ED 64 – the single, right-of-use asset approach in IFRS 16 *Leases* and the recognition of concessionary lease revenue.

The IPSASB noted the divergence with GFS, which classifies leases for lessees (and lessors) as operating or finance leases based on risks and rewards.

The IPSASB decided to appoint a Task Force to reconsider the lessor accounting proposed in ED 64, which would diverge from IFRS 16 rather than retain an operating lease/ finance lease distinction. 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 agreed with departing from the IFRS 16 model, but most did not then agree with the ED's proposed accounting.

There are also significantly mixed views on the proposed lessor accounting for concessionary leases, with just under half of the respondents agreeing – the ED proposed that a lessor would recognise the subsidy provided to the lessee as an immediate expense, with a corresponding credit to the unearned revenue liability. This credit would be recognised as revenue over the lease term, even though it would never be received in cash. The main opposing view supports no recognition of the subsidy expense and a reduced unearned revenue liability, to recognise only the contractual cash flows.

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, 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*. If so, then the Task Force assessed whether additional guidance should be added to IPSAS 41. If not, then the Task Force will develop recommendations for guidance, e.g. new IPSAS, add to IPSAS 41 guidance, or staff Q&As.

The IPSASB requested the Task Force to prepare a draft Exposure Draft based on its views. This is expected to be considered at the IPSASB's March or June 2019 meeting.

2 Operational and Strategic Matters

Meeting Attendance, Board Membership and Staffing

The total membership complement comprises 18 members. All members attended the meeting, with the exception of the retiring USA member.

The IPSASB currently has its full complement of eight full-time technical staff. The staff member who resigned from the end of 2018 will continue to provide significant time during the first half of 2019 to IPSASB projects as agreed with the Technical Director. A new staff member from Canada has been appointed to commence from January 2019.

Board Appointments

As noted in the report on the September 2018 IPSASB meeting, the membership terms of seven members conclude at the end of 2018. Four members are being reappointed, as follows:

- Todd Beardsworth (NZ) – for two years, with a further three-year term possible;
- Mike Blake (Australia) – for three years, and also Deputy Chair again for 2019;
- Bernhard Schatz (Austria) – for two years, with a further one-year term possible;
- Marc Wermuth (Switzerland) – for two years, with a further one-year term possible.

Three members retire from the IPSASB at the end of the year:

- Bob Dacey (USA) – General Accountability Office;
- Sebastien Heintges (Germany) - PwC; and
- Juan Zhang (China) – Ministry of Finance.

The three new members from the start of 2019, appointed for three years and eligible for reappointment, are:

- Luzvi Chatto (The Philippines) – nominated by The Commission of Audit;
- Adrienne Cheasty (USA) – a self-nominee working with the IMF; and
- Lynn Pamment (UK) – nominated by CIPFA.

Strategic Matters

IPSASB Strategy and Work Plan 2019-2023

The IPSASB considered the feedback from discussions with the IPSASB's Consultative Advisory Group (CAG) and its oversight body, the Public Interest Committee (PIC) and approved the Strategy and Work Plan 2019-2023, which is sub-titled *Delivering Global Standards. Inspiring Implementation*. A feedback statement will also be published.

Some debate over whether to refer to GFS harmonisation (preferred by the PIC) or alignment, but the IPSASB chose the latter, despite apparent translation difficulties. The IPSASB also refers to alignment with IFRS Standards, so is treating GFS similarly.

The Work Plan includes two new projects: natural resources, and a limited review of the IPSASB Conceptual Framework, the latter to look at the IASB's revised Conceptual Framework. The CAG had expressed concern that discount rates and differential reporting projects were not added to the work plan.

IASB Liaison

The IPSASB will meet in March 2019 with IASB members and staff, to discuss lease accounting (the IPSASB's lessor accounting proposals differ from IFRS 16) and potential collaboration as the IPSASB addresses natural resources and the IASB researches extractive activities with a view to starting an active project.

European Public Sector Accounting Standards

Eurostat is co-ordinating the European Commission project to consider European Public Sector Accounting Standards (EPSAS). The IPSASB Standards are likely to provide a foundation for the European standards. No time line is indicated.

The Eurostat observer reported to the meeting that the co-ordinating EPSAS Working Group met in November, discussing service concession arrangements, among other topics, and will meet again in May 2019. An impact assessment is being prepared.

The EPSAS work will now be integrated within Eurostat with the national accounts methodology group, which addresses the European version of GFS. This potentially could lead to better harmonisation/ alignment between the two sets of reporting requirements.

3 Future IPSASB Meetings

Dates	Location	Host
12–15 March 2019	Washington, DC, USA	The World Bank
18–21 June 2019	Toronto, Canada	Chartered Professional Accountants Canada
24–27 September 2019	Lisbon, Portugal	Ministry of Finance, Portugal
10–13 December 2019	Abu Dhabi, UAE	Department of Finance, Abu Dhabi

Related meetings

Dates	Location	Meeting
17 June 2019	Toronto, Canada	IPSASB Consultative Advisory Group
24–25 June 2019	Niagara-on-Lake, Canada	Public Sector Standard-Setters Forum
9 December 2019	Abu Dhabi, UAE	IPSASB Consultative Advisory Group

4 Outreach following the IPSASB meeting

Mike participated in two outreach events, both facilitated by the Malaysian Institute of Accountants, held following the IPSASB meeting as follows:

- Public Sector Financial Management Conference 2018 titled “Upholding Trust and Accountability” – broad range of speakers with the audience primarily comprising public sector accounting and treasury officials;
- Round table with selected invitees at the offices of the Malaysian Institute of Accountants. Purpose was to address public sector specific issues identified locally relating to implementing IPSAS.