

MEETING HIGHLIGHTS

December 2015

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For more detailed information about IPSASB projects, please refer to the project summaries under [Current Projects](#) on the IPSASB website.

Retirement of Chair and Members

This was the last meeting of Andreas Bergmann, the IPSASB Chair since January 2010. The IPSASB acknowledged the great impact of Andreas on the work of the IPSASB. The new Chair from January 1, 2016 will be Ian Carruthers. It was also the last meeting of retiring members Mariano D'Amore, Tim Youngberry and Wan Selamah Wan Sulaiman. The IPSASB recognized their significant contribution to the IPSASB during an exciting period which had seen the publication of the first global public sector Conceptual Framework, the first full public consultation on the IPSASB's strategy and work plan, the first Recommended Practice Guidelines and the establishment of the Public Interest Committee. .

Public Sector Combinations

The IPSASB considered an Issues Paper and draft Exposure Draft (ED). The Issues Paper raised the key issues to be determined before the IPSASB could consider approving the ED.

Classification of public sector combinations

The IPSASB discussed the details of the rebuttable presumption approach agreed at its September 2015 meeting. Under this approach, there is a rebuttable presumption that a combination is an acquisition where one of the parties to the combination gains control of operations. The IPSASB agreed that the objectives of financial reporting and the qualitative characteristics should inform an entity's analysis of the rebuttable presumption, but should only be referred to as specific factors in exceptional circumstances.

Residual amount in an amalgamation

Staff presented a number of options for the IPSASB to consider regarding the treatment of the opening surplus or deficit in an amalgamation. The IPSASB agreed that the residual amount should comprise all components of net assets/equity, including the revaluation surplus. The IPSASB acknowledged that some stakeholders may have concerns about the treatment of the revaluation surplus and similar components of net assets/equity. The IPSASB agreed to refer to this issue in the specific matter for comment on the residual amount, and to include an explanation of the IPSASB's approach in the Basis for Conclusions.

Scope and Definitions

The Issues Paper included a proposal to reorder the definitions in the ED to group them by type of public sector combination, rather than alphabetically. Members agreed that this would be helpful for preparers,

and noted that a similar approach had been used in other IPSASs. The IPSASB therefore agreed that the definitions should be reorganized.

Approval

The IPSASB approved the ED after a final review, and agreed that the response period should run from the end of January 2016 until June 30, 2016.

IPSASB staff member contact – Paul Mason: paulmason@ipsasb.org

Public Sector Financial Instruments

Monetary Gold – Definitions

The IPSASB agreed with modifications to the “reserve asset” definition to align more closely with Government Finance Statistics (GFS) terminology.

Monetary Gold – Specific Matter for Comment (SMCs)

The IPSASB agreed to include two SMCs for the chapter. One SMC will ask if there should be an option to select a measurement basis (current value or historical cost) based on their intention in holding monetary gold assets. A second SMC will ask which measurement basis is most appropriate for monetary gold – current value or historical cost.

Currency in Circulation – Nature of Currency

The IPSASB formed a view that both notes and coins derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. The IPSASB agreed that a draft preliminary view should be developed for consideration at the March 2016 meeting.

Currency in Circulation – Approaches

The IPSASB believes accounting for currency in circulation should be driven by the economic substance of the transactions, and that these are accounting approaches, not options. The IPSASB therefore directed staff to update the terminology in the next version of the CP.

Currency in Circulation – Measurement

The IPSASB discussed measurement. The IPSASB agreed with the staff analysis that historical cost, market value, and on limited occasions, cost of fulfillment may be viable measurement bases.

Next Chapter for Development

Staff presented an overview of the final chapter of the CP, covering accounting for IMF Special Drawing Rights (SDRs) and IMF Quota Subscriptions.

The IPSASB directed that there should be a more detailed explanation of the different types of IMF transactions and their nature, with an analysis of similarities to, and differences from, other more common financial instruments. Examples will be developed to assist constituents in understanding each transaction. The IPSASB noted that an important distinction to highlight and discuss in the chapter is how SDRs are both a financial instrument and a unit of measurement for other financial instruments such as loans.

IPSASB staff member contact – Ross Smith: rosssmith@ipsasb.org

Financial Instruments: Update of IPSAS 28-30

The IPSASB considered a project brief for the updating of the current IPSASs on financial instruments – IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, which will primarily focus on maintaining convergence with the IASB literature, in particular IFRS 9, *Financial Instruments*, which was issued in 2014, and mainly impacts IPSAS 29. The IPSASB agreed with the proposed scope of the project.

Key Issues

The IPSASB discussed key changes introduced by IFRS 9, for which the public sector implications will be explored:

- The classification of financial assets;
- The move from an incurred loss impairment model to an expected loss model; and
- Hedge accounting requirements;

The IPSASB agreed that the policy document, *Process for Reviewing and Modifying IASB Documents*, will be followed in considering the IFRS 9 changes, as the project is maintaining the alignment of existing IPSAS with the IFRS from which they are primarily drawn.

The IPSASB decided to consider the development of additional application guidance for public sector specific securitizations (where future resources from, for example, sovereign rights, taxation rights or other rights not recognized in the statement of financial position are securitized) in this project because accounting for securitizations is already covered by existing IPSASs. Accounting for public sector securitizations was previously in the scope of the public sector specific financial instruments project.

The IPSASB approved the project brief with a view to commencing the project in 2016.

IPSASB staff member contact – Ross Smith: rosssmith@ipsasb.org

Employee Benefits

The IPSASB discussed the remaining key issues in the revision of IPSAS 25, *Employee Benefits*.

Net Interest Approach

The IPSASB decided to include the net interest approach in the proposed revisions to IPSAS 25. The IPSASB acknowledged that the net interest approach is not reflected in Government Finance Statistics (GFS) reporting guideline. This is due to the different objectives of GFS, rather than to a public sector specific reason that warrants departure from IAS 19.

Retention and deleting current requirements in IPSAS 25

The IPSASB agreed to retain the principles-based approach to determining a discount rate in IPSAS 25. This approach allows the preparer to select the discount rate that best reflects the time value of money, rather than specifying application of a discount rate based on a specific financial instrument, such as a high quality corporate bond.

The IPSASB also agreed to retain the rebuttable presumptions on state plans and long-term disability payments in IPSAS 25 because this is a limited scope project only to address IAS 19 amendments since IPSAS 25 was approved in 2008.

Definitions and Terminology

The IPSASB agreed with the staff's recommendation to sub-divide definitions into categories related to (i) employee benefits; (ii) classification of plans; (iii) net defined benefit asset (or liability); and (iv) definitions relating to defined benefit cost. The IPSASB also agreed to additional definitions, the deletion of a few definitions, and a number of other modifications of current definitions.

The IPSASB agreed with staff's recommendation to retain the terms "constructive obligation", "reliable" and "fair value" in IPSAS 25, rather than replacing them with the Conceptual Framework terms: "non-legally binding obligation", "faithful representation" and "market value", respectively, because a more general review of the recognition and measurement criteria in the current literature will be undertaken in the light of the Conceptual Framework.

The IPSASB also agreed with staff's recommendation to retain the terms "revenue" and "controlled/controlling entities" in IPSAS 25, because they are consistent with the Conceptual Framework.

Approval of the ED and Exposure Period

The IPSASB approved ED 59. The IPSASB agreed that the comment period will be three months. ED 59 will be issued in January 2016.

IPSASB staff member contact – João Fonseca: joaofonseca@ipsasb.org

Cash Basis Review

The IPSASB considered a draft Exposure Draft (ED) proposing amendments to the Cash Basis IPSAS, *Financial Reporting Under the Cash Basis of Accounting*. The amendments are directed at (a) overcoming obstacles to adoption of the IPSAS that arise as a result of the requirements relating to consolidation, external assistance and third party payments; and (b) clarifying the role of the Cash Basis IPSAS as an intermediate step on the transition to the accrual basis of financial reporting and adoption of the accrual IPSASs, rather than an end in itself. The draft ED also proposes a number of "housekeeping" type amendments to ensure that the requirements and encouragements in the Cash Basis IPSAS are not inconsistent with those in the accrual IPSASs, unless intended to be so to reflect the cash basis focus in this Standard.

The IPSASB approved issue of the ED subject to amendments to the text to strengthen and clarify the intent of certain of the requirements in Part 1 and encouragements in Part 2.

The ED proposes amendments to the Cash Basis IPSAS to remove from Part 1 of the IPSAS, and recast as encouragements in Part 2 of the IPSAS with some refinements, the requirements that:

- (a) Controlling entities prepare and present consolidated financial statements that consolidate all controlled entities. The ED proposes that Part 2 of the IPSAS will encourage controlling entities to prepare consolidated financial statements that consolidate all controlled entities. Part 2 will also encourage entities that do not consolidate all controlled entities to prepare financial statements that reflect the budget sector, general government sector or other representation of core government activities;
- (b) Reporting entities disclose in a separate column in the statement of cash receipts and payments the amount of payments made by third parties. The ED proposes that Part 2 of the IPSAS will encourage the note disclosure of certain information about third party payments; and
- (c) Reporting entities disclose information about external assistance received during the reporting period and the amount of undrawn external assistance that is available to the entity. The ED proposes that

Part 2 of the IPSAS will encourage disclosure of information about external assistance and other assistance received as cash or in the form of third party payments, and the amount of undrawn assistance.

The ED will identify, and seek comment on, only those paragraphs or sections of the Cash Basis IPSAS that are proposed for amendment as part of this limited scope review. This is consistent with the usual format of EDs proposing amendments to IPSASs. A copy of the complete draft Cash Basis IPSAS “marked-up” to identify all proposed amendments will also be included on the IPSASB website (www.ipsasb.org) at the same time as the ED is issued. The web-based copy is provided as a resource for constituents wishing to place the amendments proposed by this ED in the context of the full IPSAS.

Issue Date and Exposure Period.

The ED will be issued in January 2016 with a six month exposure period.

IPSASB staff member contact – Paul Sutcliffe: Paulsutcliffe@ifac.org

Revenue/Non-Exchange Expenses

The IPSASB continued its discussion of the Revenue and Non-Exchange Expenses projects through consideration of a joint agenda item.

The IPSASB reviewed the results of outreach interviews conducted with preparers of financial statements regarding issues encountered using the existing guidance for non-exchange transactions. IPSASB members expressed interest in user feedback and provided suggestions for continued efforts to contact financial statement users.

The IPSASB then considered existing guidance for expenses contained in IPSASB literature. The overview of current standards will serve as a reference point for the non-exchange expenses project as the project continues to progress.

The IPSASB then discussed an Issues Paper on the non-exchange/exchange classification approach to accounting for transactions in the public sector. IPSASB members discussed the advantages and disadvantages of the non-exchange/exchange classification approach, as well as potential modifications to existing guidance that could be considered. IPSASB members agreed that the non-exchange/exchange classification approach should be presented as an alternative for recognition for both revenues and expenses.

The IPSASB considered an Issues Paper about a performance obligation approach to accounting for some revenue and expense transactions in the public sector. The objective of the paper was for the IPSASB to determine the extent of revenue and expense transactions for which it would like to develop the performance obligation approach.

The IPSASB noted that the performance obligation approach in IFRS 15, *Revenue from Contracts with Customers*, would only be able to be applied to some revenue and expense transactions that contain performance obligations. The IPSASB agreed that it would like to develop a performance obligation approach that could be applied to a much broader range of revenue and expense transactions that contained performance obligations. This included transactions that would meet the criteria set forth in IFRS 15 and transactions out of the scope of IFRS 15 that are subject to performance obligations.

The IPSASB agreed that a performance obligation approach cannot be applied to transactions that are not subject to performance obligations, and that these transactions would need to be dealt with separately.

The IPSASB agreed that the performance obligation approach needs to take a broad view of binding arrangements in the public sector, noting that specific legislative requirements can give rise to performance obligations. The IPSASB also agreed that the performance obligation approach needs to take a broad view of the enforceability of binding arrangements, which is not just through legal means.

The IPSASB considered a Paper seeking a decision about whether or not to develop Consultation Papers (or a Consultation Paper) for the revenue and non-exchange expenses projects.

The IPSASB agreed to develop one Consultation Paper for both revenue and non-exchange expenses that would set out the two alternative approaches it has been considering – that is, an exchange/non-exchange classification approach and a performance obligation/no performance obligation approach. The IPSASB noted that the manner in which the Consultation Paper is packaged may need to be reconsidered as the shape and size of the paper becomes evident.

The IPSASB justified the need for a Consultation Paper on the basis it was considering an approach to revenue and expenses that did not distinguish between exchange and non-exchange.

IPSASB staff member contact – Paul Mason: paulmason@ipsasb.org

Emissions Trading Schemes

The IPSASB considered three issues for development of the Emissions Trading Schemes (ETSs) Consultation Paper (CP). IPSASB staff are working collaboratively with International Accounting Standards Board (IASB) staff responsible for the IASB’s “Pollutant Pricing Mechanisms” (PPM) project, which will address accounting for ETS involvement from an ETS participant’s perspective. The IPSASB noted that the IASB has established a subcommittee for its PPM project and directed IASB staff to consider a wider set of PPM interventions. The IPSASB directed IPSASB staff to continue to monitor IASB developments. The two projects are linked, which could have further implications for the CP’s timeline going forward. The IPSASB reconfirmed its view that there are significant benefits to be gained from considering and, where appropriate, contributing to IASB developments on this topic.

Second the IPSASB considered two proposals on development of a draft description of the background paper on governments’ public policy objectives when creating an ETS. The IPSASB supported the proposal that IPSASB staff work with IASB staff to develop the paper jointly. The IPSASB also supported revisions to broaden and deepen the paper’s coverage, including more real-world examples of emission reduction interventions. The background paper should support both boards’ understanding of different types of ETSs and other government interventions, ensure that there is clarity around key terms, and support consideration of the economic impact of different interventions. The paper should be concise and focused on differences (between different types of ETSs and PPMs) that are relevant to financial reporting. The paper will discuss economic impacts but not identify or discuss accounting alternatives.

The IPSASB then discussed a draft description of four accounting approaches for ETS administrators. Staff were directed to continue to develop the accounting approaches and monitor IASB developments for any further accounting approaches that emerge.

Next steps are for staff to develop a further issues paper for the IPSASB’s March 2016 meeting, while also progressing the background paper and the draft description of accounting options.

IPSASB staff member contact – Gwenda Jensen: GwendaJensen@ipsasb.org

Governance

Staff provided an update on governance developments, noting in particular the recent appointment of Thomas Müller-Marqués Berger as the inaugural Chair of the Consultative Advisory Group (CAG) and the call for nominations for the CAG, for which the closing date is February 19, 2016. The IPSASB also agreed the codification of its due process and working procedures.

IPSASB staff member contacts – John Stanford: johnstanford@ipsasb.org and IPSASB staff member contact – Ross Smith: rosssmith@ipsasb.org

Heritage Assets

The IPSASB discussed three issues at this meeting. The IPSASB reviewed a description of the different heritage-related activities undertaken by public sector entities and different types of reports on these activities that could be prepared. The IPSASB directed that the Consultation Paper should focus on general purpose financial reports (GPFRs) with reference to the Conceptual Framework's description of such reports. The IPSASB directed that the discussion of a draft description of the obligations and commitments that arise from heritage preservation responsibilities should be linked to the Conceptual Framework's definition of a liability. The IPSASB broadly supported staff's analysis of specific heritage items to determine whether they meet the Conceptual Framework's definition of an asset. Staff was directed to develop this through, *inter alia*, consideration of factors that indicate whether a heritage item has service potential.

Next steps are for staff to develop a further issues paper for the IPSASB's March 2016 meeting.

IPSASB staff member contact – Gwenda Jensen: GwendaJensen@ipsasb.org

The next IPSASB meeting will be held in New York, USA on March 8–11, 2016.