



To:	AASB members	Date:	14 April 2010
From:	Clark Anstis	Agenda Item:	3.1
Subject:	IPSASB Report	File:	–

Action

To receive a report on the 6-9 April 2010 meeting of the International Public Sector Accounting Standards Board.

Attachment

3.2 Meeting Highlights, IPSASB meeting, April 2010

Background

The IPSASB met from Tuesday through Friday in Toronto, Canada. The IPSASB staff are based in Toronto, due to the major financial support provided to IPSASB by both the Canadian Government and the Canadian Institute of Chartered Accountants.

Tim Youngberry (First Assistant Secretary – Financial Reporting and Cash Management, Australian Government Department of Finance and Deregulation, Canberra), Australia's member of IPSASB since the start of 2010, will be attending the AASB meeting for part of day 2, including this report.

Principal Issues and Outcomes

The IPSASB Meeting Highlights identifies the main decisions arising from the meeting. The Conceptual Framework project discussions covered more than two of the four days of the meeting, reflecting the top priority being given by the IPSASB to that project.

Some additional notes on the principal issues and outcomes follow.

Conceptual Framework – Project Plan

The “subcommittee” for the CF project presently comprises about seven IPSASB members (some of whom would represent National Standard Setters), representatives of some other NSSs (including AASB staff) and representatives of some Ministries of Finance. Some Board members perceived the subcommittee as diminishing the involvement of the Board itself, and it will be restructured into an NSS Advisory Panel. Terms of reference to be discussed with NSS.

Board members will be more closely involved with the development of CF materials by being allocated to “task-based groups” (TBGs) as a sounding board for authors developing the CF agenda

papers and consultative documents. Tim Youngberry will participate in the TBG on presentation and disclosure, and Ken Warren the elements TBG.

The present intention is to have an Exposure Draft of the complete Conceptual Framework approved by the end of 2011, with approval of a final Conceptual Framework pronouncement hopefully by the end of 2012 or perhaps during the first half of 2013.

Conceptual Framework – Phase 1

The initial phase of the IPSASB's CF work addresses the objectives and scope of general purpose financial reporting by public sector entities, qualitative characteristics, and reporting entity. The IPSASB has been reviewing the responses to the Consultation Paper (September 2008).

Scope of GPFRs – broader than general purpose financial statements, e.g. reporting on the long-term sustainability of public finances.

Users of GPFRs – the IPSASB further discussed whether to identify a primary group of users of GPFRs and decided not to do that, but to acknowledge the needs of both resource providers and service recipients (including their representatives).

Qualitative characteristics

- relevance, faithful representation, understandability, timeliness, comparability and verifiability, with constraints of materiality, cost and appropriate balance between QCs;
- no distinction between fundamental and enhancing QCs (thus differs from IASB/FASB proposals);
- detailed discussion of “faithful representation” versus “reliability” terminated when French and German members said that the same words would be used for these in their languages;
- respondents' suggestions for additional QCs not supported, e.g. “supportability” (as an alternative to verifiability for prospective information), “regularity” and “transparency”.

Reporting entity

- existence of users dependent on GPFRs for information for accountability or decision-making purposes;
- group reporting entity comprises two or more separate entities that present GPFRs as if a single reporting entity, based on the power to direct the strategic financial and operating policies of the entities – and the existence of dependent users;
- further comparison with System of National Accounts 2008 (basis for GFS) needed.

Conceptual Framework – Elements

The discussion was aimed at determining what issues should be addressed in the Consultation Paper on the elements, rather than trying to come to preliminary views. Agreed that elements should be addressed on the basis of economic analysis of transactions and events, not simply taking existing definitions and recognition criteria. Elements of assets, liabilities, revenues and expenses agreed, but no decision re deferred inflows and outflows, cash inflows and outflows, net assets/equity.

Assets

- need to articulate service potential – is it encompassed by “future economic benefits” or separate; relationship to accountability?;
- illustrate by application to powers to tax and issue licences.

Liabilities

- encompass legally enforceable obligations but some support also for including constructive obligations as liabilities;
- consider performance obligations and whether a specific or determinable settlement date is necessary;
- CP should discuss budget allocations and appropriations;
- decided not to illustrate liabilities by application to social benefits, as might be jurisdiction-specific and might adversely affect respondents' comments on CP.

Revenues and Expenses

- can these be defined without reference to assets and liabilities?;
- consider GFS distinction of other economic flows – entities remain accountable for these, but are they definitional or presentation issues?

Net Assets/Equity

- an element or simply a residual amount?;
- can contributions from owners be excluded from definition of revenue only if they comprise a separate element, or is it a matter of presentation?;
- if only a residual amount, can components be disclosed, e.g. components based on source, such as owners, accumulated surplus, accumulated revaluations.

Recognition Criteria

- address existence uncertainty and measurement uncertainty;
- discussed whether all recognition aspects should be excluded from element definitions, such as references to expected flows of future economic benefits or service potential – some members support combining definitions and recognition criteria;
- disclosure a complement to recognition, not a substitute.

Conceptual Framework – Measurement

The IPSASB had its third discussion of materials addressing the measurement of assets, but its first concerning the measurement of liabilities and concepts of capital and capital maintenance. Again, the discussion principally concerned the issues that should be addressed in the Consultation Paper on measurement in financial reporting, rather than trying to come to preliminary views.

Issues discussed in relation to the measurement of assets included entity-specific values and the effects of alternative uses of assets and advances in technology on replacement cost.

Measurement of liabilities was considered principally in the context of the deprival (relief) value model, which addresses a number of measurement bases for liabilities: assumption price, cost of fulfilment and cost of release. Adjustment for own credit risk was also discussed.

Various concepts of capital were discussed, such as financial capital (nominal and real) and physical capital (operating capacity), with members reflecting on linkages to the objectives of financial reporting in the public sector.

Conceptual Framework – Presentation and Disclosure

Although not formally on the agenda for the meeting, staff asked for members' preliminary thoughts on the scope of this part of the CF work. The general view was that the CP should address

high-level principles relevant to the broad scope of general purpose financial reporting. Some members thought that it might be appropriate for the subsequent ED to be limited to GPFSSs.

Strategy and Work Plan

The IPSASB discussed various alternatives for improving the governance arrangements for the Board, such as extending the remit of the Public Interest Oversight Board to cover the IPSASB in addition to the other public interest activity committees of the International Federation of Accountants. Governance and funding arrangements will be addressed in conjunction with IFAC. It was noted that diversity of funding helps to ensure the independence of a standard-setting board.

The draft work plan for the 2010-2012 triennium was considered, based on three meetings in 2010 but four in later years. The Conceptual Framework project accounts for a majority of the board agenda time. The other active projects are reporting on the long-term sustainability of public finances, service concession arrangements and the review of the cash-basis reporting Standard.

Members discussed the presently committed projects that are not yet active, such as heritage assets, narrative reporting, service performance reporting and public sector financial instrument issues. Members considered whether the heritage assets project might be removed from the committed list, and also discussed new projects that might be added to the work plan. Potential projects include common control and joint arrangements (both likely to be included under entity combinations – see below), emissions trading schemes, first-time adoption of IPSASs, improvements to IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and social benefits. Differential reporting was also noted as a matter to be monitored.

No decisions were made, and the IPSASB will further discuss strategy and work plan matters at the next meeting.

Entity Combinations

The IPSASB again considered a draft IPSAS corresponding to IFRS 3 *Business Combinations*. This topic is the final part of the IPSASB's IFRS-convergence program. The major issue discussed concerned the scope of the Standard. Members had agreed previously that the accounting requirements re measurement of assets and liabilities acquired, goodwill, bargain purchase, etc. were appropriate for a limited number of entity combinations in the public sector.

Members again could not agree on the scope of the Standard, although all agreed that public sector reorganisations were to be excluded. Some members could not agree to a scope limited to acquisitions of private sector entities, due to either concerns about consolidating entities "acquired" under Global Financial Crisis interventions or wanting to limit such a scope to combinations where the cash-generating nature of the private sector entity's activities was not expected to be changed.

The IPSASB therefore decided to drop this project for the time being, and concentrate instead on dealing with entity combinations in the public sector for which the general IFRS 3 requirements may not be appropriate. At some stage, however, it would seem necessary for the IPSASB to address the entity combinations for which the general requirements are appropriate.

IASB Financial Instruments Amendments

The IPSASB's three Standards on financial instruments (IPSASs 28, 29 and 30, issued in January 2010) apply to annual periods beginning on or after 1 January 2013, but may be applied earlier.

That delayed application date allows the IPSASB to consider the final version of IFRS 9 *Financial Instruments* for inclusion in IPSASs rather than address the various parts of IFRS 9 as they are completed by the IASB.

At this meeting the IPSASB discussed whether it should seek to amend IPSASs for changes to IASB pronouncements as a result of projects other than the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* by IFRS 9 as they arise, such as recent embedded derivative changes and IFRIC Interpretation 19 on extinguishing financial liabilities with equity instruments. The IPSASB decided to defer addressing all financial instrument changes until the IASB had completed IFRS 9.

Annual Improvements to IPSASs

The IPSASB approved Exposure Draft ED 44 *Improvements to IPSASs* for issue, with a comment date of 30 June 2010. The ED covers relevant amendments from the annual improvements made by the IASB to its Standards in April 2009, as well as some minor amendments to IPSASs.

The IPSASB decided to develop another such ED for issue in 2011, but thereafter to address minor improvements on a biennial basis. Editorial corrections subsequent to ED 44 would most likely be dealt with as direct amendments of the Standards, rather than using an exposure draft process. Such corrections are expected to be appropriately publicised.
