

Report: International Public Sector Accounting Standards Board (IPSASB) Meeting

7 – 10 March 2011

Paris, France

Prepared by Clark Anstis, Technical Advisor to the Australian member of IPSASB

The first meeting for 2011 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Paris in March, hosted by the Organisation for Economic Co-operation and Development (OECD).

This report addresses the following aspects of the IPSASB's activities:

- 1 strategic and operational matters;
- 2 key technical matters and outcomes from the meeting;
- 3 out-of-session activities; and
- 4 future IPSASB meetings.

The next meeting of the IPSASB will be held in Naples, Italy, in June 2011.

1 Strategic and Operational Matters

1.1 Board Membership

The total membership complement comprises 18 members, including the three public members (from Canada, Italy and Switzerland – Chair). All members attended the meeting. This was the first meeting for new Board member, Jeanine Poggiolini, who is a project manager at the South African Accounting Standards Board, which sets public sector standards.

1.2 Governance Arrangements for the IPSASB

The IPSASB has developed a Consultation Paper (CP) on revising its governance arrangements, considering not only due-process oversight but also other aspects such as the need for a full-time Chairman, the relative numbers of public and regular members, the role of an enhanced consultative advisory group, and resourcing and fundraising processes. The CP will address two oversight models – oversight by the Public Interest Oversight Board (PIOB), and oversight by a new, public sector specific body.

The Chairman reported to the meeting that the interim version of the CP had been discussed with the IFAC Board, which had some preference for adopting oversight by the existing PIOB as the most efficient way forward. The IFAC Board gave its approval for preliminary consultation with a small group of stakeholders, being selected governments and international organisations. The final CP is expected to be issued in September 2011 for public comment by the end of the year. The aim is to obtain IFAC Board approval of revised arrangements in 2012, with implementation during 2013.

1.3 Work Program

The work program was discussed at this meeting in terms of which four new projects might be added over the next two years. The only committed projects that are presently inactive are heritage assets and financial instruments (public sector issues and IFRS 9). The heritage assets project might be deferred in favour of some other project. The IPSASB held its first discussion on the narrative reporting project issues at this meeting (see item 2.5 below).

Members expressed preferences for adding the following projects to the work program: the first-time adoption of IPSASB Standards, social benefits, non-exchange revenue (revision), government finance statistics (update), definition of government business enterprises (GBEs), emissions trading schemes, and the impact of natural disasters (e.g. insurance, impairment, contingencies). The IPSASB decided to defer projects closely related to the Conceptual Framework, such as social benefits, revenue and leases. Project briefs will be considered for the other potential projects at the next meeting.

2 Key Technical Matters and Outcomes

2.1 Conceptual Framework

Since the previous meeting (in November 2010), the IPSASB has issued a number of consultative documents in relation to its project to develop a conceptual framework (CF) for general purpose financial reporting by public sector entities:

- Exposure Draft on phase 1 – objectives and users, scope, qualitative characteristics and reporting entity;
- Consultation Paper on phase 2 – elements and recognition; and
- Consultation Paper on phase 3 – measurement.

These documents were published in December 2010, with the comment periods all concluding on 15 June 2011. The Consultation Papers on phases 2 and 3 will be followed by EDs on those phases. Phase 4 – presentation and disclosure – remains under discussion, with a revised draft CP to be prepared for consideration at the next IPSASB meeting.

The IPSASB presently is not planning to issue a final Exposure Draft that encompasses the four phases. Originally it intended to do so, but decided that it may be feasible to update its Phase 1 conclusions for views decided subsequently in relation to phases 2 to 4 without the need for another exposure process. This would shorten the project timeline. The aim is to issue its completed CF in the second quarter of 2013.

Key Characteristics of the Public Sector

A short document *Key Characteristics of the Public Sector* was discussed again at this meeting. It had been published as a staff draft in December 2010. With amendments agreed at the meeting and subject to out-of-session voting, the document will be published as an Exposure Draft on the IPSASB's website. This ED will note matters such as the significance in the public sector of non-exchange transactions (e.g. the provision by government of goods and services and taxation and other involuntary transfers), the importance of the budget, responsibility for heritage items, the longevity of public sector entities, the regulatory role of government and statistical bases of financial reporting – and their potential impact on financial reporting.

The ED is expected to be issued in April 2011 with comments due by the end of August. The finalised document is expected to be included in the final CF in some way, to provide a general context for the public sector CF, or as a prefatory document of some kind to IPSASB pronouncements in general.

Conceptual Framework – Elements and Recognition (Phase 2)

The IPSASB received presentations from two members concerning the reporting of financial performance in terms of two competing approaches: (i) the revenue and expense-led approach, i.e. allocating an entity's inflows and outflows to particular accounting periods, which would require the recognition of deferred revenues and expenses, and (ii) the asset and liability-led approach, i.e. income for a period represents the period's changes in an entity's resources and obligations. No decisions were made. The IPSASB expects that these approaches will receive much attention from constituents in their submissions on the Phase 2 Consultation Paper.

Conceptual Framework – Presentation and Disclosure (Phase 4)

The IPSASB discussed an initial draft of a Consultation Paper on this part of the CF work. Progress on phase 4 continues to be difficult. A further draft of the CP will be considered at the June 2011 meeting, when the IPSASB hopes to approve the CP for issue. The comment period may be limited to four months, ending say late October 2011, so that this phase does not delay the whole CF project.

The Presentation and Disclosure phase is intended to address principles for general purpose financial reporting, and hence is not limited to general purpose financial statements. The broader scope should be useful to the IPSASB as it addresses a range of issues for GPFRs, such as long-term fiscal sustainability.

The CP seeks to address questions such as what information should be reported, and where and how it should be reported, but distinguishing 'presentation', 'disclosure' and 'display' is proving difficult. The principal view at present appears to be that presentation is the general term, encompassing both display (the showing of information on the face of a statement) and disclosure (showing information elsewhere in a GPFR).

Members were of the view that the CP should propose high-level presentation concepts that interpret or apply the qualitative characteristics of financial reporting to presentation. The following potential concepts are to be developed further:

- (a) presentation should make clear important relationships between information displayed in different parts of a GPFR;
- (b) presentation should ensure that information in a GPFR is at the right level of detail to support achievement of users' needs;
- (c) presentation should remain consistent over time for a reporting entity to the extent appropriate; and
- (d) the benefits of presenting information in GPFRs should exceed the costs.

2.2 Service Concession Arrangements

The IPSASB commenced its detailed review of the submissions received in response to ED 43 *Service Concession Arrangements: Grantor* (Feb. 2010) and discussed some key issues. Further issues will be considered at the next meeting.

A major issue discussed was the notion of performance obligations for grantors under service concession arrangements (SCAs). ED 43 had proposed that a grantor recognising service concession assets under a SCA should also recognise a liability, which may be any combination of a financial liability and a performance obligation (to provide the operator with access to the SCA assets). Although the performance obligation appears to underlie any SCA, including those where the grantor has a financial liability to make agreed payments to the operator, ED 43 proposed its explicit recognition only to the extent that the grantor did not have a financial liability to the operator (e.g. where the operator received an intangible asset, such as the right to charge users of the infrastructure underlying the SCA).

At the meeting, the members agreed not to pursue the performance obligation approach. Instead, they decided that the credit entry should be revenue received in advance, where the grantor recognises a service concession asset in exchange for the operator receiving an intangible right (e.g. the right to charge users or access to another revenue-generating asset).

Further issues raised by respondents to ED 43 will be considered at the next meeting.

2.3 Service Performance Reporting

The IPSASB considered the first draft of a Consultation Paper on the reporting of service performance information in GPFRs, continuing its discussion of the previous meeting on terminology, so that there could be a common definition (and understanding) of the major terms. For example, members agreed that 'objective' should be defined as "an objective is a statement of the results that a public sector entity is aiming to achieve", and the proposed term 'goals' deleted, thus avoiding translational difficulties in distinguishing the two terms.

Members noted that the objective of service performance reporting is the provision of information that is relevant to meeting the needs of users of GPFRs. The IPSASB does not intend to identify what specific performance measures should be reported by an entity, but to address the appropriate reporting of such measures by an entity. For example, the CP is likely to propose that service performance reporting should encompass information on the scope of the report, service objectives, and outcomes, and that inputs and outputs are linked through efficiency measures, and outputs are linked to outcomes or results through effectiveness measures.

The CP will identify various ways in which service performance information may be reported, such as with financial statements in traditional GPFRs, in a separate GPFR, or in both.

A revised draft CP will be considered at the next meeting.

2.4 Entity Combinations

The IPSASB considered an initial issues paper on this project. The intention is to develop a Consultation Paper as the first step in the process of issuing a Standard. At present, there is no explicit IPSASB Standard addressing entity combinations. IPSASB members were unable to agree in 2010 on a proposed Standard developed on the basis of IFRS 3 *Business*

Combinations. Members had different views on the types of combinations to which the proposed Standard should be applied.

The working definition of an entity combination at this early stage of the project is “the bringing together of separate entities and/or operations into one entity.” Members discussed at the meeting whether to expand this definition to refer to “an integrated set of activities (including assets and/or liabilities)”, to clarify that the acquisition of assets and/or liabilities alone would not be included. This will be considered further.

Members discussed the scope of the current project, and decided that it should address both the entity that receives the other entity/operation (the recipient) and the entity that loses control of the entity/operation (the transferor). The project will also address combinations between entities/operations that are under common control.

2.5 Narrative Reporting

The brief for this project had been approved at the March 2008 IPSASB meeting, but the project had been deferred in favour of the IPSASB’s project to converge its Standards with IFRSs as at 31 December 2008. Accordingly, this project had been on the inactive list.

This was the first substantive discussion of this project, with consideration of an initial issues paper, a summary of requirements/guidance in existing pronouncements (including the IASB’s recent Practice Statement *Management Commentary*), and a summary of legislative requirements in a number of countries.

Members discussed the scope of the project and decided to limit it to narrative reporting on financial statements. They noted that it should reflect the objectives of financial reporting and enhance the usefulness of financial information provided by general purpose financial statements. For example, narrative reporting should provide context for the financial statements, expand and explain financial statement information, and aid users in understanding the operations, successes and challenges of an entity at present and in the future.

The IPSASB is considering the application of the qualitative characteristics for financial reporting to narrative reporting, and the essential content elements, such as overview, nature of operations, risks and uncertainties, strategies, significant trends and changes from the previous year.

2.6 Improvements to IPSASs

The IPSASB reviewed a draft Exposure Draft *Improvements to IPSASs 2011* and approved it for issue. It has now been published as ED 45, with comments due by 30 June 2011. The proposed amendments to IPSASs principally comprise two types:

- (a) the deletion of Introduction paragraphs wherever included in IPSASs; and
- (b) the addition of Objective paragraphs to those IPSASs without them – IPSAS 6, 7, 8 and 10.

Limited amendments to a few Standards are also being proposed. These would bring the Standards into line with the requirements in other Standards.

3 Out-of-Session Activities

3.1 Documents approved by the IPSASB

No documents were voted upon through out-of-session ballot since the previous IPSASB meeting.

3.2 Comments on IPSASB agenda papers

AASB and FRSB staff reviewed and prepared comments on various agenda papers for the March 2011 IPSASB meeting. The agenda papers and comments were discussed with the Australian and New Zealand members of IPSASB. Staff of CPA Australia and The Institute of Chartered Accountants in Australia are invited to participate in this briefing meeting.

The staff comments were revised following the briefing meeting and provided to the IPSASB Chair and staff prior to the IPSASB meeting for their information.

4 Future IPSASB Meetings

Dates	Location	Host
14 – 17 June 2011	Naples, Italy	University of Naples, Parthenope
12 – 15 September 2011	Toronto, Canada	Canadian Institute of Chartered Accountants
5 – 8 December 2011	Brasilia, Brazil	Conselho Federal de Contabilidade; and National Treasury
5 – 8 March 2012	TBD (Europe)	TBD