

Report: IFAC IPSASB Meeting

Jakarta, Indonesia

1 – 4 November 2010

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The third and final IPSASB meeting for 2010 was held in Jakarta in November, hosted by the Indonesian Government Accounting Standards Committee – the Komite Standar Akuntansi Pemerintahan (KSAP). The Indonesian Government is progressing a project to adopt accrual accounting for financial reporting and budgeting by 2015.

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 first IPSASB meeting for 2011 will be held in France in March.

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). Fifteen members attended the meeting; the members from Israel, Italy and Uruguay were absent.

This was the final meeting for Erna Swart (South Africa), Deputy Chair of the IPSASB, whose membership concludes at the end of the year. Erna is CEO of the South African Accounting Standards Board, which sets public sector standards. Another staff member of that Board, Jeanine Poggiolini, will replace Erna as an IPSASB member.

Sheila Fraser (public member, Canada) and Anne Owuor (Kenya) have been reappointed from the start of 2011 for their second three-year terms.

David Bean (USA) will become Deputy Chair of IPSASB from 2011.

1.2 Governance Arrangements for the IPSASB

Previous IPSASB meetings have discussed at length the need for improved governance and considered various oversight models for the IPSASB. As a result of those discussions, the IFAC Board had proposed to the IFAC Monitoring Group that the Public Interest Oversight Board (PIOB) should also oversee the due process of the IPSASB, subject to consultation with governments and other key stakeholders. The proposal was not considered by the Monitoring Group in its *Review of the IFAC Reforms – Consultation Paper* (June 2010). Its final report was not available at the time of the IPSASB meeting, however there was some hope that the Monitoring Group would take up the issue.

The IPSASB has developed its own Consultation Paper on governance, 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 PIOB, and oversight by a new, public sector specific body.

At the IPSASB meeting, members approved an interim version of the CP, which is to be discussed first with the IFAC Board in March 2011 and then, after its approval, with a small group of stakeholders. The finalised CP is expected to be issued for public comment in June 2011. The aim is to obtain IFAC Board approval of revised arrangements in 2012, with implementation during 2013.

The IFAC Board has already approved four meetings per year from 2011 for the IPSASB and an additional staff member. The IFAC Strategic Plan 2011-14 includes an enhanced focus on public sector financial reporting.

1.3 Work Program

The work program was not discussed at this meeting. With the conceptual framework project the overarching priority, the latest draft work program allows for up to four new projects over the next two years. The only committed projects that are presently inactive are heritage assets, narrative reporting and financial instruments (public sector issues and IFRS 9). The heritage assets project might be deferred in favour of some other project.

At this meeting, the IPSASB approved a revised and expanded project brief on entity combinations. The initial aim is to issue a Consultation Paper by the end of 2011.

2 Key Technical Matters and Outcomes

2.1 Conceptual Framework

At this meeting, the IPSASB approved a number of consultative documents in relation to its conceptual framework (CF) project:

- 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 are expected to be published in December 2010, with six-month comment periods concluding 30 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 draft CP to be prepared for consideration at the next IPSASB meeting.

A separate, short paper *Key Characteristics of Government and the Public Sector* will be published (as a staff draft) on the IPSASB's website alongside these consultative documents, to provide a general context for the public sector CF documents. This paper 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 and programs, the regulatory role of government and statistical bases of financial reporting. The IPSASB plans to expose a revised *Key Characteristics* paper in 2011 for comment and to include a finalised version in the final CF in some way.

The IPSASB presently is not planning to issue a final Exposure Draft that encompasses the four phases. Originally it intended to do so, but changed that decision on the grounds 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.

The IPSASB does not regard its CF project as a matter of convergence with the IASB conceptual framework. However, the IPSASB has noted concerns expressed over the potential for differences between the IPSASB and IASB conceptual frameworks and intends to eliminate differences as far as possible. IPSASB's CF consultation documents will each include an Appendix outlining the guidance set out in corresponding IASB statements and statistical bases of reporting (based on the System of National Accounts 2008). Differences will not be explicitly identified.

Conceptual Framework – Role, Objectives, Scope, QCs, Reporting Entity (Phase 1)

The initial phase of the IPSASB's CF work addresses the role of the CF, the objectives and scope of general purpose financial reporting by public sector entities (including the users of financial reports and their information needs), the qualitative characteristics of financial reporting, and reporting entity. Major features of the ED proposals are noted below.

Role of the Framework – the CF is intended to assist the IPSASB in developing Standards and non-authoritative guidance, as well as providing guidance to preparers and others in dealing with financial reporting issues not addressed in IPSASB pronouncements.

Objectives of GPFRs – IPSASB proposes two objectives: providing information about the reporting entity useful for financial report users for accountability purposes and for decision-making purposes.

Scope of GPFRs – more comprehensive than general purpose financial statements and not restricted to financial information, e.g. reporting on the long-term sustainability of public finances and service performance reporting. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of financial reporting. That is, an individual GPFR need not cover all aspects.

Users of GPFRs – the ED will propose that GPFRs of public sector entities should respond primarily to the information needs of service recipients and resource providers (including their representatives) who do not possess the authority to direct the disclosure of the information that they need.

Qualitative characteristics – relevance, faithful representation, understandability, timeliness, comparability and verifiability, with constraints of materiality, cost and appropriate balance between the QCs. No distinction between fundamental and enhancing QCs (thus different from the recent IASB/FASB revised framework).

Reporting entity – a public sector reporting entity is a government or other public sector organisation, program or identifiable activity that prepares a GPFR. A group reporting entity is based on the authority and capacity to direct the activities of one or more other entities so as to benefit (or suffer loss) from those activities.

Conceptual Framework – Elements and Recognition (Phase 2)

The IPSASB considered a significantly restructured draft of the Consultation Paper for this phase of the CF project. This was approved for issue, with the Task-based Group of Board members for this topic to finalise the text. The CP in general will not propose specific definitions. Nor will it include IPSASB views. Major features are noted below.

Assets and liabilities – the CP identifies these as necessary elements of financial statements and considers the characteristics that are essential to their definition. These characteristics are addressed in terms of the substance of assets and liabilities, determining whether it is the reporting entity's asset (or liability), and determining whether it is an asset (or liability) at the reporting date.

Revenues and expenses – the CP discusses the reporting of financial performance in terms of two competing approaches: (i) allocating an entity's inflows and outflows to particular accounting periods, and (ii) changes in a period in an entity's resources and obligations. The CP considers additional essential characteristics of revenues and expenses in terms of whether they should be limited to the results of specific activities (such as operating activities) and whether transactions with "owners" should be excluded.

A paper outlining alternative financial performance reporting models will be published on the website as a companion piece. It will cover four models – change in accumulated surplus/deficit; government finance statistics; net cost of services; and inter-period equity.

Other potential elements – the first approach to financial performance noted above raises the issue of whether separate elements need to be identified in relation to deferred inflows and deferred outflows. The CP discusses alternatives in dealing with such items, such as treating them as separate elements or as sub-components of assets and liabilities or sub-components of net assets/net liabilities.

The CP also considers net assets/net liabilities and transactions with owners as potential elements, addressing their essential characteristics. Net assets/net liabilities is discussed in terms of residual amounts or interests and ownership interests and the potential for defining particular components as elements.

Recognition criteria for elements – the CP discusses the implications of existence uncertainty (is element definition met?) and measurement uncertainty (is measurement reliable?), e.g. whether evidence thresholds should be included in recognition criteria or existence uncertainty should affect the measurement. Other aspects noted in the CP are whether the same criteria should be applied to subsequent recognition (derecognition) and whether recognition criteria should be separate from or incorporated in the element definitions.

Conceptual Framework – Measurement (Phase 3)

The IPSASB approved this Consultation Paper for issue, again with the Task-based Group of Board members for this topic to finalise the text. The CP in general will not include any IPSASB preliminary views, however the text is expected to draw conclusions on the suitability of various measurement bases and invite comments on those conclusions. Major features of the CP are noted below.

Scope – the CP addresses the measurement of assets and liabilities in financial statements. It does not include a general exploration of concepts of capital and capital maintenance, but rather a review of various measurement models that have been applied or proposed for assets

and liabilities, including the concept of capital that they reflect. The CP will ask for views whether a mixed measurement approach should be adopted.

Measurement bases – these are described in relation to a number of features – historical v. current, entry v. exit, and market v. entity-specific basis – and analysed by reference to the objectives of general purpose financial reporting and the qualitative characteristics. The measurement bases covered in the CP are:

- historical cost;
- market value;
- replacement cost;
- the deprival value model for assets: lower of replacement cost and recoverable amount (higher of value in use v. net selling price)
- the deprival (relief) value model for liabilities: higher of assumption price and settlement amount (lower of cost of fulfillment v. cost of release).

Fair value is not covered directly in the CP. Some comparisons with fair value are made via footnotes, but the CP does not evaluate IASB proposals on fair value measurement on the grounds that they are standards-level proposals rather than conceptual guidance.

Appendices cover several issues in more detail – whether own credit risk should affect liability measurement, and whether the replacement cost of an asset should be adjusted for incremental value due to alternative possible uses. The IPSASB debated whether to exclude these issues altogether from the CP but decided that exposure was worthwhile.

Conceptual Framework – Presentation and Disclosure (Phase 4)

The IPSASB discussed a revised issues paper on this part of the CF work. Progress on phase 4 has been difficult. The next step is to consider an initial draft Consultation Paper at the March 2011 meeting, with approval of the CP indicated for the June 2011 meeting. The comment period may be limited to four months.

Whereas the Elements and Measurement phases of the CF project are limited to general purpose financial statements, the Presentation and Disclosure phase is intended to address principles for general purpose financial reporting. Members discussed at the meeting whether to narrow the scope of phase 4 to GPFs instead of GPFRs, but on balance decided to retain the broader scope at present, in the hope of identifying principles for presentation and disclosure that would be useful to the IPSASB as it addressed a range of issues for GPFRs, such as long-term fiscal sustainability.

The issues paper addressed questions such as what information should be reported, and where and how it should be reported, but distinguishing “presentation” and “disclosure” is proving difficult. The paper proposed a number of principles to assist in making presentation and disclosure decisions – functional design, integration and information sufficiency – but members preferred a more explicit application of the qualitative characteristics of general purpose financial reporting. The way in which individual financial statements and other components of GPFRs might be linked to the objectives of financial reporting was also raised in the paper, with the members uncertain how to deal with this aspect.

2.2 Service Concession Arrangements

The IPSASB considered an overview 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.

Members confirmed that an IPSASB pronouncement should have the same general scope as that of IFRIC Interpretation 12 *Service Concession Arrangements*, based on the control criteria (the services to be provided, the recipients and the pricing), even if the meaning of ‘regulation’ was modified in the public sector context. Some members preferred expanding the scope of requirements to address arrangements in which the control criteria were not satisfied. Whereas the initial IPSASB Consultation Paper (March 2008) addressed all types of service concession arrangements, the ED addressed only those that satisfy the control criteria.

The notion of performance obligations for grantors under service concession arrangements was discussed at the meeting without reaching any conclusions. Members requested staff to analyse the issues for the next meeting. Members were advised that the IASB has no plans to withdraw IFRIC Interpretation 12.

2.3 Reporting on the Long-Term Sustainability of Public Finances

The IPSASB considered some key issues identified in the submissions received on its Consultation Paper (November 2009) on this topic. The ultimate objective of the project is the issuance of non-mandatory guidelines that entities can choose to apply when reporting on fiscal sustainability. To this end, members agreed that the IFAC Board should be requested to modify the IPSASB’s Terms of Reference so that it is clear that IPSASB can issue publications on financial reporting outside general purpose financial statements.

Members took the view that guidelines should not be limited to consolidated or group entities, as the existence of users for fiscal sustainability reporting should determine whether such reports are provided. There is no expectation that such reporting would be done annually. Guidelines are likely to allow entities to select a reporting approach that reflects their individual fiscal and service delivery characteristics, rather than specifying key indicators that should be reported.

A meeting of the task force for this project (which comprises a number of Board members and external parties) will take place in conjunction with the next IPSASB meeting, with a view to preparing a first draft of guidelines for the June 2011 meeting.

2.4 Service Performance Reporting

The IPSASB reviewed further research on current reporting practices around the world and a revised issues paper. Further issues are expected to be considered at the next meeting prior to developing a Consultation Paper.

Members agreed that the qualitative characteristics for general purpose financial statements were also relevant to service performance reporting, which should encompass information on the scope of the report, service objectives, and outcomes and results. Members noted that inputs and outputs were linked through efficiency measures, and outputs were linked to outcomes and results through effectiveness measures.

The IPSASB reviewed the various definitions of the principal terms as used around the world, and supported some simplified definitions. Members noted that it is unclear whether some terms refer to planned or actual positions, such as “outcomes”, and that this should be addressed as an issue. Definitions will be refined in future discussions. Different views are also apparent on whether service performance reporting should include outcomes and results.

2.5 Entity Combinations

The IPSASB considered and approved a revised project brief addressing the accounting for entity combinations, having failed at the April 2010 meeting to approve a Standard corresponding to IFRS 3 *Business Combinations* as members could not agree on the types of combinations to which the Standard should apply.

Members supported the development of a consultation paper to address the possible accounting methods for all types of entity combinations occurring in the public sector. The scope of the project will include combinations with or without the transfer of consideration, and whether or not under common control. The working definition of an entity combination is “the bringing together of separate entities and/or operations into one entity”.

2.6 Improvements to IPSASs

The IPSASB reviewed the responses received on ED 44 *Improvements to IPSASs* (April 2010), and approved an improvements Standard for issue, with application to annual periods beginning on or after 1 January 2012. The amendments to IPSASs comprise two types:

- (a) amendments corresponding to IASB amendments to IFRSs in its 2009 Standard *Improvements to IFRSs* (April 2009), where relevant to IPSASs; and
- (b) other improvements to IPSASs arising from a general review of existing Standards, such as removing references to extraordinary items and terminology changes.

Members agreed that editorial corrections to IPSASs should be published by the IPSASB when finalised, but that they did not need to be exposed for public comment. Staff were requested to consider the scope of editorial corrections, to enable these to be distinguished from more significant amendments that should be subject to due process.

2.7 Structure of IPSASB Standards and IFRS Convergence

Structure of IPSASs

The IPSASB intends to publish a document *Guidelines for Drafting IPSASs* in 2011. This will set out the normal structure of an IPSAS, including identifying the authoritative parts. The amendment history of an IPSAS will be included. Dissenting views will not be included expressly, however the Basis for Conclusions will be expected to give the rationale for the conclusions reached and the alternatives rejected. Dissenting views of Board members on final Standards would be documented in meeting minutes.

A non-authoritative comparison with IFRSs will be included when an IPSAS is adapted from an IFRS.

IFRS Convergence

The staff are working on various ways to identify and control needed amendments to IPSASs in response to IASB amendments to IFRSs, as a means of tracking ongoing convergence with IFRSs. A tracking table that lists all IFRS amendments subsequent to the issue of each IPSAS based on an IFRS (or subsequent to a later version of the IFRS) was reviewed at the IPSASB meeting and has since been published on the IPSASB website. This does not compare existing requirements of IPSASs and IFRSs.

IPSASB staff developed a table of concordance for IPSAS 31 *Intangible Assets*, which does compare the current IPSAS against the corresponding IASB Standard, IAS 38 *Intangible Assets*. This is a detailed, paragraph-by-paragraph comparison, with explanations for any differences. The intention is that these tables would be prepared for IPSASs that are revised in the future, rather than preparing them for existing IPSASs, as they are time consuming to prepare. The tables should help to ensure that consequential amendments to IPSASs do not inadvertently override intentional differences to IFRSs.

2.8 IMF–IPSASB Joint Task Force Report

The IMF and the IPSASB collaborated during 2009 to meet with a number of governments to discuss interventions arising from the global financial crisis. The final report *Financial Reporting of Public Interventions to Assist the Financial Sector* was completed in August. The IPSASB had hoped that the report could be published, but this is not possible. The original terms of reference had promised confidentiality to the five participating jurisdictions – Germany, Japan, Switzerland, UK and USA.

The report identifies the lack of comparability between government financial statements due to the use of differing Standards, highlighting the non-consolidation of temporarily controlled entities due to either temporary control exceptions in Standards or government decision, and special purpose entities may be consolidated in some countries and not in others. Different measurement bases for financial guarantees were also noted, with most-likely amounts and expected values being used.

Update of Government Finance Statistics Manual

Mr Carlos Gutierrez, an economist from the IMF, gave a presentation to the IPSASB on recent developments in GFS. He noted that the GFS Manual 2001 is to be updated for the requirements of the System of National Accounts 2008. The process for this update will commence in February 2011 with a meeting of interested parties and then will be progressed via electronic forums.

He explained that the IMF has adopted the GFS Manual 2001 as the standard for presenting IMF fiscal data. As of 2008, he noted that the annual IMF database (GFSM format) included total revenue for roughly 100 of 187 IMF members, total liabilities for roughly 40 members, and total non-financial assets for about 10 members. He noted limited progress where measurement was difficult, as for non-financial assets.

2.9 IPSASB Study 14

The IPSASB reviewed a draft revised version of Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*. The present edition was published in 2003. The revised version was approved for issue.

The Study includes references to publications and websites that public sector entities may find useful in making the transition to accrual accounting and reporting.

One particular issue addressed at the meeting concerned whether IFRS 1 *First-time Adoption of International Financial Reporting Standards* could be applied by public sector entities in making the transition to IPSASs. Members concluded that entities adopting IPSASs could use only the transitional provisions in IPSASs, and requested that Study 14 reflect that view.

3 Out-of-Session Activities

3.1 Documents approved by 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 November 2010 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 also participated 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
7 – 10 March 2011	Paris, France	OECD
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	<i>to be advised</i>	<i>to be advised</i>