

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

**14 – 17 June 2011**

**Naples, Italy**

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The second meeting for 2011 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Naples in June, hosted by the National Council of Professional Accountants (CNDCEC) and Parthenope University.

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 Toronto, Canada, in September 2011.

## **1 Strategic and Operational Matters**

### **1.1 Meeting Attendance and Staffing**

The total membership complement comprises 18 members, including the three public members (from Canada, Italy and Switzerland – Chair). Seventeen members attended the meeting, the only apology being from the member from Israel.

The technical advisor to the member from China has joined the IPSASB staff on secondment for a one-year period, resulting in a change of advisor. A secondee from Ernst & Young Germany will shortly join the IPSASB staff. A new, permanent appointment to the staff will commence late in 2011. With these appointments, the IPSASB will have eight full-time and two part-time technical staff.

Although no IASB member or staff attended the meeting, the regular IPSASB – IASB Liaison Meeting had been held the week prior to the IPSASB meeting. The Chair reported that the incoming IASB Chairman, Hans Hoogervorst, showed much interest in public sector financial reporting issues.

### **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 proposed CP addresses two oversight models – oversight by the Public Interest Oversight Board (PIOB), and oversight by a new, public sector specific body. The CP presently is planned to be issued for public comment following a period of preliminary consultation and then finalisation of the CP by the IFAC Board.

The Chairman reported to the meeting on the preliminary consultation with 14 governments and 11 international organisations. Several more governments and organisations are still to be consulted in this phase. The consultations to date have identified significant support for the proposals, with some preference for adopting oversight by the existing PIOB as the most efficient way forward. The PIOB is expected to encourage the Monitoring Group (MG), which oversees and appoints the PIOB, to develop a consultation paper to propose expanding the PIOB's remit to include oversight of the due process of the IPSASB in addition to that of the other IFAC Boards that it already deals with. Therefore, it is possible that the IFAC CP will be issued in conjunction with or jointly with a consultative document from the MG.

The IFAC CP had been expected to be issued in September 2011 for public comment by the end of the year, however this is now likely to be delayed depending on the responses from the PIOB and the MG. The present aim is to obtain IFAC Board approval of revised arrangements in 2012, with implementation during 2013.

It was noted that the IASB Trustees' Strategy Review Report *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade* (April 2011) referred to the possibility of the IFRS Foundation and the IASB addressing public sector issues at some point in the future. The Chair noted that the IASB was not likely to seek to address public sector financial reporting in the short and medium term, and that improved IPSASB governance arrangements therefore were expected to be in place for many years.

### 1.3 Work Program

The work program was discussed in detail at this meeting in terms of which four new projects might be added over the next two years – potentially three new projects could be commenced late in 2011 and another sometime in 2012. These are in addition to committed projects that are presently inactive – financial instruments (public sector issues) and maintenance of IFRS convergence in respect of financial instruments (IFRS 9) and consolidations and joint arrangements (IFRS 10-12, etc). A project brief for the consolidations and joint arrangements project was approved at this meeting.

The new project for 2012 is likely to be emission trading schemes, where the IPSASB is hoping to develop its proposals jointly with the IASB.

The major debate on the work program at this meeting centred upon the three new projects potentially commencing later this year. The IPSASB decided that projects on the first-time adoption of IPSASB Standards, and government finance statistics (GFS) (update) should be started. The first-time adoption project would address transition requirements in adopting the IPSASB accrual-accounting Standards, whether the transition is from a cash basis of accounting or some form of accrual accounting. The GFS project would initially develop an appendix to the GFS Manual concerning the relationship between accounting standards and statistical reporting standards. Later phases could address differences between those sets of standards, potential amendments to IPSAS 22 *Disclosure of Financial Information about the General Government Sector*, and an illustrative chart of accounts for the provision of both IPSAS and GFS data. Revised project briefs for these two projects are expected to be approved out of session prior to the September 2011 meeting, so that work on those can commence shortly.

Before deciding on the third new project for 2011, the IPSASB will consider in September an update on its social benefit obligations project, which was deferred following a Consultation Paper in 2008 in favour of developing a public sector conceptual framework, to shed light on the issues. Many members see social benefits as a crucial project, but want to consider its

timing in relation to (a) the priority Conceptual Framework project, (b) a limited project on government business enterprises (GBEs), starting with the definition of GBEs, and (c) other potential projects. For example, some members propose that the Board recommences the social benefits project once the direction of constituent comments on the Elements and Recognition CP is clear, rather than waiting for the completion of that part of the Conceptual Framework. However, resource requirements alongside the CF project are potentially a limitation on such an approach.

The impact of natural disasters (e.g. insurance, impairment, contingencies) had been suggested at the previous meeting as a potential project, but this is now likely to be addressed by seeking publishable case studies from members and constituents. Amendments to IPSASs could also be identified through this process.

## 2 Key Technical Matters and Outcomes

### 2.1 Conceptual Framework

The IPSASB has on issue the following 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;
- Consultation Paper on phase 3 – measurement; and
- Exposure Draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*.

The documents on phases 1-3 were published in December 2010, with the comment periods all concluding on 15 June 2011. The responses to these documents will start to be considered by the IPSASB at its September meeting. The Consultation Papers on phases 2 and 3 will be followed by EDs on those phases.

The *Key Characteristics* ED was published in April 2011, for comment by the end of August. The IPSASB has not yet determined the most appropriate location for a finalised version of this material – it could form part of the final Conceptual Framework documents or be issued as some other prefatory document to IPSASB pronouncements in general.

The IPSASB presently is not planning to issue a final Exposure Draft that would encompass the four CF phases (phase 4 addresses presentation – see below). 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.

#### ***Conceptual Framework – Measurement (Phase 3)***

The IPSASB received a presentation from Andrew Lennard, Director of Research of the UK Accounting Standards Board, who is assisting the IPSASB with its work on this project. Andrew provided an overview of various measurement models and bases. No decisions were made by the IPSASB.

*Conceptual Framework – Presentation and Disclosure (Phase 4)*

The IPSASB discussed a second draft of a Consultation Paper on this part of the CF work. Progress on phase 4 continues to be difficult. A significantly revised draft of the CP will be considered at the September meeting, when the IPSASB hopes to approve the CP for issue. The delay in finalising this CP could delay the completion date for the 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 service performance reporting and 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. The CP will present the view that presentation is the general term, encompassing both display (information on the face of a statement or other critical information) and disclosure (supporting information elsewhere in a GPFR, such as notes to financial statements). The CP will propose high-level presentation concepts that interpret or apply the qualitative characteristics of financial reporting to presentation. The following draft concepts are to be considered further by the project's "task-based group" of members:

“What information”

- presentation, including the selection of information to be presented, should meet specific needs of users;
- presentation should ensure that there is sufficient information (right level of detail?) to support achievement of users' needs;
- information should be presented on a timely basis, including with sufficient frequency;

“Where presented”

- presentation should ensure that information is located in a GPFR in a way that will meet the needs of users;

“How presented”

- presentation should make clear important relationships; and
- presentation should support comparability, including consistency, of information over time for a reporting entity.

The CP will also discuss alternative approaches to presentation concepts. In particular, it will consider an approach that seeks to identify user-need focused concepts, such as the types of information that users need for decision making and accountability purposes. A third alternative to be covered is the direct application of the qualitative characteristics of financial information to the presentation decisions of what/where/how, without creating separate presentation concepts.

Once the Task-based Group has reviewed the staff's initial revised draft CP, an updated version will then be considered out of session by the members generally so that a further revised draft CP can be prepared for discussion at the September meeting. In this way, the IPSASB intends to be in a position to approve the Consultation Paper in September for publication.

## 2.2 Service Concession Arrangements

The IPSASB continued its detailed review of the submissions received in response to ED 43 *Service Concession Arrangements: Grantor* (Feb. 2010) and discussed the remaining issues. The IPSASB will consider a complete draft IPSAS at its September meeting, for approval. However, the IPSASB will also consider whether to re-expose the proposed Standard in whole or in part, instead of approving the issue of a final Standard.

The IPSASB confirmed its decision at the March meeting that a grantor recognising service concession assets under a service concession arrangement (SCA) should also recognise a liability, being revenue received in advance, when the grantor provides the operator with an intangible right (e.g. the right to charge users) in return. ED 43 had proposed that the liability reflected a performance obligation. The revenue is to be recognised by the grantor over the term of the SCA in a pattern that reflects the substance of the arrangement.

Other major decisions at this meeting that departed from the proposals in ED 43 concerned a grantor's initial recognition of SCA assets constructed by the operator and the transitional provisions for initial application of the IPSAS. The IPSASB will consider whether these changes require re-exposure.

The IPSASB decided that a grantor should recognise a work-in-progress service concession asset as it is being constructed by the operator when the grantor has little ability to avoid accepting the asset constructed so as to meet the specifications of the SCA. The recognition criteria of probable future economic benefits and reliable measurement also need to be satisfied. ED 43 had proposed that a grantor would recognise the constructed asset only when it was placed into use under the SCA, if the operator bore the construction risk under the terms of the SCA.

In relation to the transitional provisions, ED 43 had proposed retrospective application of a new Standard by entities already recognising SCAs, but prospective application by other entities (with retrospective application permitted). The IPSASB decided to require retrospective application by all entities applying the IPSAS, but to permit entities to elect to recognise a deemed cost for service concession assets as at the beginning of the earliest comparative period presented.

## 2.3 Reporting Fiscal Sustainability Information

The IPSASB considered a draft Exposure Draft, titled *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*. The responses to the November 2009 Consultation Paper had been considered by the IPSASB at meetings in 2010. A revised draft ED will be considered at the next meeting.

The ED will take the form of a proposed Recommended Practice Guideline (RPG). Members discussed whether the ultimate statement should be mandatory or voluntary for entities applying IPSASs. They noted that 'compliance with IPSASs' takes on a different meaning if there are mandatory IPSASs that apply only to limited types of GPFs, such as fiscal sustainability reports.

The proposed definition of 'long-term fiscal sustainability' is the ability of an entity to meet service delivery and financial commitments both now and in the future. At this meeting, the IPSASB supported the ED identifying the key dimensions of fiscal sustainability as fiscal capacity, service capacity and fiscal dependence or vulnerability. Members requested

suitable references in the draft ED to social benefits, given their significance to fiscal sustainability and the IPSASB's project on this topic.

The ED is to provide examples of fiscal sustainability indicators that entities may elect to report. Members considered whether illustrative examples should be included, but decided against that, on the grounds that the examples could only be limited in scope and could become a default approach to fiscal sustainability reporting. Instead, the IPSASB decided that examples of published reports could be linked to the IPSASB's website (which is part of the IFAC website).

## 2.4 Reporting Service Performance Information

The IPSASB considered a second draft of a Consultation Paper on the reporting of service performance information in GPFs. A revised draft CP will be considered at the next meeting for approval.

Board members continued the discussion of the previous meeting on terminology, trying to reach a common definition (and understanding) of the major terms. For example, members agreed that the definition of 'objective', which had previously referred to results, should be changed to "an objective is a statement of what a reporting entity is aiming to achieve", so that the objectives could relate to inputs, outputs and/or outcomes.

The IPSASB decided to present preliminary views (PVs) in the CP where they can be agreed. The first PV is likely to be that service performance information should be reported in order for GPFs to meet the objectives of financial reporting. Another PV is likely to identify four dimensions of service performance information as relevant to meeting users' needs:

- information on objectives;
- key performance indicators (but not so as to identify what specific performance measures should be reported);
- comparisons of results to costs and targets; and
- time-oriented information, including comparisons across periods.

The nature of any resulting statement on service performance reporting was also discussed. The IPSASB decided that the CP should address three alternatives: a mandatory IPSAS, an IPSAS that applied when an entity reported service performance information, and non-mandatory guidance when an entity reported such information. Members were not inclined to support a mandatory Standard, as that could stifle innovation in this form of reporting, and also noted the general question of what compliance with IPSASs means when there are optional Standards. This issue will be considered further at the next meeting.

## 2.5 Entity Combinations

The IPSASB considered a revised 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, as IPSASB members could not agree in 2010 on a proposed Standard that was based on IFRS 3 *Business Combinations*. A revised issues paper will be considered at the next meeting.

Members confirmed the working definition of an entity combination as "the bringing together of separate entities and/or operations into one entity", agreeing that the reference to 'operations' was suitable for the public sector and did not need to be replaced by a term such as 'component of an entity' or 'separable part of an entity'.

The issues paper addressed the measurement basis for an entity combination according to the type of entity acquired, e.g. public sector (including GBE) or private sector, for-profit or not-for-profit. However, the IPSASB preferred to distinguish combinations according to whether they occurred under common control. Members in general supported the use of fair values as the measurement basis for acquisitions not under common control, and carrying amounts for acquisitions under common control and for mergers.

### ***Consolidation and Joint Arrangements Standards***

Under the entity combinations agenda item, the IPSASB also considered draft project briefs for projects to update the existing Standards IPSAS 6 *Consolidated and Separate Financial Statements*, IPSAS 7 *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures*.

In April 2010, the IPSASB had approved updating these three IPSASs when the IASB finalised its revised consolidation and joint arrangements Standards. As the IASB issued those revised Standards in May 2011, the IPSASB at this meeting finalised the project briefs for its IFRS-convergence project in respect of these Standards. This will mean that the IPSASB will consider, for example, whether to retain the temporary-control exemption from consolidation of subsidiaries, which remains in the current version of IPSAS 6.

## **2.6 Narrative Reporting**

This was the second substantive discussion of this project, with consideration of a revised issues paper. Members again discussed whether the scope of the project should be limited to narrative reporting on financial statements or address broader-scope GPFRs as well. Members decided to limit the scope and indeed altered the project title to 'Financial Statement Discussion and Analysis' (FSDA), though noting that this could be changed further as the project developed. Given existing requirements in various national and international jurisdictions, the IPSASB decided that a draft Exposure Draft should be considered at the next meeting.

The IPSASB concluded that the ED should propose the basic components of an entity's FSDA as consisting of an overview, the nature of operations, risks and risk management, changes from the previous period and significant trends. Members discussed whether forward-looking information should be included, and took the view that it was not a focus of this project given that budget reporting covered such information for the short term and that fiscal sustainability information would cover the medium to long term.

Members considered whether the objective of this project should be a mandatory IPSAS, requirements that applied when an entity chose or was required to provide a narrative report on its financial statements, or purely voluntary guidance. Members preferred a mandatory IPSAS as the objective at this stage, and considered that the ED should propose this in order to seek constituents' views on the appropriateness of promulgating requirements rather than guidelines.

## **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, in March 2011.

### 3.2 Comments on IPSASB agenda papers

AASB and FRSB staff reviewed and prepared comments on various agenda papers for the June 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

<b>Dates</b>	<b>Location</b>	<b>Host</b>
12 – 16 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
11 – 14 June 2012	Toronto, Canada	Canadian Institute of Chartered Accountants