

21 June 2013

To: New Zealand Institute of Chartered Accountants
New Zealand External Reporting Board
New Zealand Accounting Standards Board
New Zealand IPSASB Consultative Group
Financial Reporting Council

From: Ken Warren – IPSASB Member

IPSASB MEETING – June 2013

Introduction

The second IPSASB meeting for 2013 was held in Toronto, on 17-20 June. This report provides an overview of the meeting and strategic matters. The appendix records progress on the conceptual framework and other technical topics. All Board members attended. Ian Mackintosh, the IASB observer, was unable to attend.

Oversight and Governance

Since the last meeting in March in Abu-Dhabi , a number of steps have been taken to press ahead with the review of the oversight and governance arrangements of the IPSASB. Indeed the IMF, the OECD and the World Bank co-chaired the first meeting of an IPSASB Governance Review Group at the end of May in Paris.

That Review Group's composition has been determined, and its terms of reference finalised. The Review Group will be chaired by representatives of the IMF, the OECD and the World Bank, and its members will include the Financial Stability Board (FSB), IOSCO and INTOSAI. In addition, the observers to the Review Group will include representatives from the European Commission/Eurostat, IFAC and the IPSASB. Key points regarding the terms of reference are:

- The review initiative is intended to support the IPSASB – not to detract from it.
- The Review Group will operate by consensus of its members.
- The timeline has been determined, with the key milestones being the publication of a consultation paper around August/September of this year and the issuance of the Review Group's final recommendations during the first half of 2014.
- The Review Group's recommendations will be reported to the G20 and the FSB.

The Review Group has agreed the scope of its work. The review will consider oversight arrangements as well as the broader questions of IPSASB governance. Measures to enhance the perceived relevance, quality and legitimacy of IPSAS will also be addressed.

The Review Group has identified two broad options for improving the public interest oversight of the IPSASB that are likely to form the basis of the consultation document. These options are:

1. Bringing the IPSASB under the purview of the oversight bodies for private sector accounting standards, but with enhanced participation of the International Financial Institutions (IFIs) (which include some multilateral development banks), governments, and users; and
2. Establishing a free-standing oversight board comprised of the IFIs, standard-setters, governments, and users.

One of the main issues to be tackled by the Review Group is how to circulate the consultation paper to as wide an international audience as possible, and to ensure that the key stakeholders are mobilised. Some outreach activities are being discussed and the assistance of the IPSASB in encouraging participation in the consultation process was requested.

The Review Group expects to meet again about six months from now. The next meeting will consider the consultation responses, how best to prioritise and deal with all the responses received, and finalise the Group's recommendations for enhancing the oversight and governance arrangements of the IPSASB.

The Chair thanked those that have been involved in developing these proposals and encouraged active participation in the consultation process.

Strategy and Work Planning

The IPSASB continued its consideration of respondents' comments on the IPSASB's work programme. The IPSASB agreed to add two projects to its work programme. These are social benefit obligations and emissions trading schemes. The ETS project will be a joint research project with the IASB.

Staff had identified the possibility of adding a third project, to update the standards on exchange revenue. However, members felt that it might be prudent to wait until early implementation issues associated with the IASB's standard have been resolved, and that it might be more appropriate to consider the exchange and non-exchange revenue standards at the same time.

Other topics noted during the discussion on the work programme included heritage assets and giving regular consideration to the cash basis aspect of topics.

The first steps for a post-conceptual framework strategy were put in place. Issues to be considered (and possibly to be included as part of the strategy consultation) include due process, streamlining processes for IFRSs convergence, and outreach.

European Public Sector Accounting Standards

European Union member states are continuing their discussions on developing harmonised European Public Sector Accounting Standards (EPSAS) based on IPSASs. In May this year, Eurostat hosted a conference on implementing EPSAS in EU Member States and it sounds as if there is starting to be political buy-in. Links to the presentations made at this conference are available at <http://www.epsas.eu/>.

The next step is to establish a taskforce to develop an implementation plan. This is regarded as a medium term project. There have been calls for a strong European governance framework for this project.

It appears likely that there will be a committee responsible for the development of standards and a separate group responsible for interpretations.

Meeting Overview

The meeting agenda was as follows.

- Agenda item 2: Conceptual Framework
- Agenda item 3: Update of IPSASs 6-8
- Agenda item 4: Financial Statement Discussion and Analysis
- Agenda item 5: Government Business Enterprises
- Agenda item 6: First-time Adoption of Accrual IPSASs
- Agenda item 7: Reporting on the Long-Term Sustainability of Public Finances
- Agenda item 8: Strategy and Work Planning
- Agenda item 9: Reporting Service Performance Information
- Agenda item 10: IPSASs and GFS Reporting Guidelines

The agenda papers are available at <http://www.ifac.org/public-sector/meetings>.

Progress on each of the agenda items (apart from item 8) is discussed in the Appendix to this report.

Next Meeting

The next meeting will be held in September 2013, in Toronto. The December meeting will be in Ottawa.

Progress on Conceptual Framework and other Technical Matters

Agenda Item 2: Conceptual Framework

The focus of this meeting was on considering respondents' comments on the EDs dealing with elements and recognition, and measurement.

A number of constituents noted that the IASB has recommenced work on its Framework project and is about to issue a discussion paper. These respondents tended to recommend that the IPSASB avoid unnecessary differences with the IASB Framework. The difficulty here is timing. The IPSASB is still committed to its original timeframe for completing its Framework (being mid June 2014) but the IASB has not yet issued its discussion paper.

The IPSASB reaffirmed that its Framework project is not a convergence project and that the timetable should remain unchanged (although it will be regularly reviewed). The IPSASB noted that there are public sector reasons that will give rise to differences between the two frameworks and that many of these differences relate to issues discussed in the draft Preface that will accompany the IPSASB Framework. However, the IPSASB did agree that it would be desirable to avoid unintentional and unnecessary differences between the two frameworks, and to this end it will continue to monitor the IASB project.

The IPSASB agreed that the draft Preface should be made available on the website, with a clear statement that it represents the Board's preliminary views and will not be finalised until the end of the project.

The IPSASB also noted that the IIRC has issued a framework on integrated reporting. The Certified Institute of Public Finance and Accounting (CIPFA) plans to issue a consultation paper raising some issues about the application of the integrated reporting concepts to the public sector.

Agenda Item 2A: Conceptual Framework – Elements

The IPSASB considered respondents' comments to ED *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*.

The IPSASB received 40 submissions on this ED. During its discussion on responses the IPSASB considered:

- the relationship of the IPSASB's project with the IASB Framework project;
- deferred inflows and outflows;
- definitions of revenue and expenses;
- definitions of assets and liabilities; and
- definitions of net assets and net financial position.

The key issue was whether or not to proceed on the basis of recognising deferred inflows and deferred outflows as separate elements. Responses were mixed but over half the respondents disagreed with the proposal. Those who disagreed generally acknowledged the issue that the IPSASB was trying to address. Some suggested that a presentation approach might be more appropriate. Others suggested expanding the definitions of assets and liabilities to incorporate some deferrals.

The Board noted that it had received a number of thoughtful and thought provoking submissions.

Before beginning its deliberations the Board received brief presentations from the two board members that presented alternative views on the Elements ED.

The Board agreed that a necessary step in taking this issue forward was a better articulation of what we mean by financial performance. This is an essential aspect of the Framework which will then help guide the standards level approach. The Board essentially re-specified the problem as whether it is possible to integrate the user need for information as to whether the resources provided for the year exceed the costs incurred for the year (which implies that the allocation of transactions to years is critical) with a representation as to whether the financial position or operating capability has increased or decreased during the year, which implies a financial statement and comprehensive income reporting approach).

The Board does have differing views on some of these issues with some Board members regarding the statement of financial position as a holding pen for balances.

Respondents made a number of suggestions for refining the other definitions, many of which were linked to issues associated with the deferrals proposal. The IPSASB will have a more detailed look at these suggestions at its next meeting. More of these comments represent suggestions for improvement rather than fundamental disagreement.

With respect to ownership interests, the majority of respondents supported the IPSASB defining contributions from owners and distributions to owners, but not the ownership interest itself. This is in line with the IPSASB's views as outlined in the ED.

We will consider recognition issues in more detail at the next meeting. The IPSASB noted that the IASB's thinking on recognition issues has changed since the IPSASB developed its EDs. One of the issues that the IPSASB might consider is whether it would be appropriate for the Framework to acknowledge the possibility of having recognition thresholds at a standards level.

Agenda Item 2B: Conceptual Framework – Measurement

The IPSASB considered respondents' comments to ED *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement*. The IPSASB has also received 40 submissions on this ED (with 38 being included in the staff analysis for this meeting).

The ED focused on the identification of possible measurement bases and the approach to determining which of those bases would be most appropriate in the circumstances. One of the most significant issues was whether the Framework should include a measurement objective.

Comments on this issue from respondents were mixed. The Board agreed that staff should draft a measurement objective for consideration at the next meeting, although there was a message that this objective should continue to permit use of a mixed measurement model. The measurement objective is to consider financial capacity, operating capacity and cost of services as well as include reference to the qualitative characteristics.

The IPSASB's preference for the concept of market value rather than fair value was another hot topic for respondents. The IPSASB included fair value as a means of obtaining a market value in certain circumstances. This proposal generated a number of comments. Some considered that the discussion of the fair value model was too detailed, and others couldn't see why the IPSASB preferred market value as a concept. The IPSASB remains committed to its preference for market value and viewed respondents' comments as an indication that it needs to explain its position more clearly. The

discussion of fair value as a model is likely to be trimmed down considerably and incorporated in the same chapter as the discussion of market value. Similarly the discussion of deprival value will be re-evaluated in the light of the draft measurement objective and the revision of the chapter. The IPSASB will continue its consideration of respondents' comments in September.

Agenda Item 3: Update of IPSASs 6 to 8

The IPSASB has already looked at all the draft EDs that comprise this project. The key issue for the IPSASB at this meeting was to consider exceptions to consolidation.

The IPSASB agreed to propose an exception from consolidation for investment entities (whilst noting that relatively few investment entities are expected to be applying IPSASs). In addition the IPSASB directed staff to consider arguments for permitting the retention, or roll-up, of fair value investment entity accounting by a non-investment controlling entity.

The IPSASB also considered a proposal for optional whole of government consolidated financial statements in conjunction with mandatory statistical sector reporting. The IPSASB agreed not to proceed with this proposal, although it noted that the interaction between IPSAS 18 *Segment Reporting* and IPSAS 22 *Disclosure of Financial Information about the General Government Sector* could be explored in the future and might form part of the 2014 work programme consultation.

The IPSASB directed staff to proceed to draft an ED based on IFRS 10 which (i) requires that investment entities account for their controlled investments at fair value; and (ii) sets out the possibility of permitting the retention of fair value investment entity accounting by a non-investment controlling entity (with the IPSASB planning to make a decision on this at the next meeting). The Basis for Conclusions is to note the wide-ranging discussions of the IPSASB over the last few meetings regarding possible exceptions to consolidation. Respondents will be asked to justify any proposals for exception to consolidation having regard to user needs.

Agenda Item 4: Financial Statement Discussion and Analysis

At its last meeting the IPSASB agreed to issue a Recommended Practice Guideline (RPG) on this topic. The draft guidance had been considered at a number of meetings previously and, with a few relatively minor changes, was approved for issue. This is one of the first two RPGs that the IPSASB has approved (see also agenda item 7).

The IPSASB decided that its decision to change the status of the guidance from a standard to an RPG did not require re-exposure.

Agenda Item 5: Government Business Enterprises

Currently IPSASs state that IPSASs have been developed for application by public sector entities other than GBEs, and that GBEs should apply IFRSs. There has been some inconsistency in the way that various jurisdictions are applying the definition of GBE (partly due to a lack of clarity about what is meant by full cost recovery and reliance on government funding). This has meant that the types of entities applying IPSASs vary between jurisdictions.

In New Zealand this issue has not been of direct relevance as the recently approved PBE Standards specify which entities are required to apply them. The recently approved PBE Standards are to be applied by public sector PBEs. The NZASB is currently developing Exposure Drafts which will propose some changes to the suite of PBE Standards to extend their application to not-for-profit PBEs.

The IPSASB considered four options for proceeding with this project:

- (a) Do not specifically define GBEs.
- (b) Clarify the existing definition so that it is easier to apply.
- (c) Narrow the existing definition of GBEs.
- (d) Redefine GBEs using a different approach e.g. based on services or objectives.

Option (a) would be similar to the IASB's approach in saying that IFRSs have been developed for application by profit-oriented entities.

The IPSASB did not select a specific approach. However, having regard to the fact that regulators (or government bodies) within a jurisdiction decide which entities apply which standards, the IPSASB agreed that it would be helpful to develop material about the factors that a jurisdiction could consider when deciding which entities should, and should not, apply IPSASs. This material is likely to focus on the characteristics of such entities rather than attempting to pin down a definition. Once this material has been developed the IPSASB will look at how the current statements about GBEs in the Preface to IPSASs and the scope section of each IPSAS should be revised.

Agenda Item 6: First-time Adoption of Accrual IPSASs

The IPSASB considered first-time adoption proposals for the financial instrument standards and provided feedback on a draft ED. The ED is shaping up nicely and will be considered again in September.

New Zealand has already gone through this process with the creation of two first-time adoption standards for entities adopting PBE Standards (refer PBE FRS 45 and PBE FRS 46).

The IPSASB ED will continue to permit 3 year transition periods for the recognition of some assets. However, the ED will highlight that entities not recognising all assets could be unable to assert compliance with IPSASs. The reason for permitting such generous transition provisions is to allow entities to assert that they are in transition to IPSASs (although the exact wording of any such assertion is yet to be determined).

Agenda Item 7: Reporting on the Long-Term Sustainability of Public Finances

At its last meeting the IPSASB agreed to issue a Recommended Practice Guideline (RPG) on this topic. The draft guidance had been considered at a number of meetings previously and, with a few minor changes, was approved for issue. The document is intended to assist the increasing number of governments producing fiscal sustainability reports. It discusses three interrelated dimensions of long-term fiscal sustainability being service, revenue and debt.

Agenda Item 9: Reporting Service Performance Information

The IPSASB provided direction on issues that need to be addressed to draft an RPG on reporting service performance information. The drafting of an RPG, based on the consultation paper that was issued in 2011, will be the next step.

The IPSASB considered whether the RPG should establish the minimum standards expected for service performance reporting, identify the decisions that preparers will need to make, providing guidance on how such decisions should be made, or a mixture of both approaches. The IPSASB concluded that the RPG should provide a mixture of guidance on decisions and identification of minimum characteristics for reporting service performance information. The IPSASB noted that it

would be preferable to refer to requirements or characteristics of information than “minimum standards”.

The IPSASB also considered the:

- (a) selection of services to be reported. The IPSASB confirmed that the RPG should provide guidance on how an entity should select the services on which it will report. The key point here is that the selection needs to have regard to the objective of the report, that is, the factors or criteria driving the information on services reported. The IPSASB noted that because of the large number of services that might be provided, some form of selection and aggregation is nearly always required. The choice between selective basis versus comprehensive basis was not viewed as helpful.
- (b) selection of performance indicators to be reported. The IPSASB confirmed that the RPG should provide guidance on how an entity should select the types of performance indicators that it reports on services. Key points included the importance of linking with the entity’s objectives, an encouragement to move beyond output indicators and the potential benefits associated with using indicators selected by an external body. It also highlighted the need for the selection of indicators to be guided by the qualitative characteristics, particularly relevance.
- (c) organisation of service performance information. The IPSASB agreed that the RPG should provide guidance on information organisation that focuses on principles rather than choices between particular approaches. A tabular format (a statement of service performance) would be one choice. Again, the need to consider the objective of the report and the types of services reported was noted.

The TBG and staff will bring back a draft RPG consistent with the Board’s directions to the next meeting.

Agenda Item 10: IPSASs and GFS Reporting Guidelines

The IPSASB reviewed responses to the consultation paper it issued last year which, amongst other things, sought feedback on whether the IPSASB should be taking a more systematic approach to harmonisation with GFS reporting guidelines. Some respondents have supported harmonisation but not at the expense of other key objectives such as:

- (a) consistency with the Conceptual Framework;
- (b) IFRS convergence; and
- (c) remaining true to financial reporting’s objectives.

A few members encouraged caution in looking at this issue, both in terms of the IPSASB’s objectives and also the use of scarce staff resources.

The IPSASB agreed that the taskforce should carry out further work in terms of:

- (a) Considering in more detail respondents’ comments regarding the issues that have or have not been resolved and updating the table that records comments. This might lead to the identification of some areas for further work.
- (b) How to move forward in relation to developing guidance on a chart of accounts and IPSAS 22 options.

In the longer term the IPSASB will consider its strategy on GFS issues in the context of the 2014 work programme consultation.