

30 September 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 – September 2013

Introduction

The third IPSASB meeting for 2013 was held in Toronto, on 16-19 September. This report provides an overview of the meeting and strategic matters. The appendix records progress on the conceptual framework and other technical topics.

Membership and Staffing

All Board members attended. New appointments for 2014 have been confirmed. The four new members will be Stuart Barr (Canada), Leonardo Silveira do Nascimento (Brazil), Aracelly Mendez (Panama) and Abdullah Yusuf (Pakistan). Jeanine Poggiolini and Rachid El Bajjet have been appointed for second terms. There will be five public members next year.

The three members finishing their terms in December 2013 are Sheila Fraser (public member, Canada), Anne Ouwar (Kenya) and Masud Muzaffar (Pakistan). There will be 19 members for a year. The extra member (over the standard 18) was caused by a snafu in the reappointment process, and will have implications for next year's appointments.

Simon Bradbury was welcomed back as an observer, this time for the Asian Development Bank. Some of you will know Simon from his time at the New Zealand Treasury and with the (then) Public Sector Committee.

A new staff member João Fonseca has been appointed. João has been working in the public sector in Portugal for the past 10 years, most recently with Statistics Portugal. It is hoped that he will join the staff at the beginning of November. Another staff member, Grant Macrae is returning to Scotland soon.

Oversight and Governance

As I noted in my last report, an IPSASB Governance Review Group, comprising key stakeholders, has been established. The Review Group is chaired by representatives of the IMF, the OECD and the World Bank, and its members include the Financial Stability Board (FSB), IOSCO and INTOSAI. Other key stakeholders such as the IPSASB, will be observers.

The Review Group is developing a consultation document to seek feedback from constituents on oversight arrangements for the IPSASB, as well as related governance issues. Brian Quinn of the World Bank updated the Board on progress. The consultation document has been drafted and is being reviewed by the three chairing bodies (neither IPSASB nor its Chair has seen a draft). It is expected to be issued later this year. It will seek views on two broad options:

- establishing a free-standing oversight board comprised of the IFIs, standard-setters, governments, and users; and

- 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.

The Review Group will consider comments and make recommendations to the FSB which, in turn, liaises with the G20.

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.

Keith Hayes, the Eurostat observer, provided the Board with an update on current activities. A meeting will be held in October to discuss oversight arrangements for EPSASs. Over 55 registrations have been received for this meeting. Ian Carruthers and Thomas MMB will attend as IPSASB members. An oversight taskforce will be established and it will be responsible for issuing a document setting out proposals for governance.

A conference on EPSASs is being proposed for next February. This is intended to inform a *Commission Communication* from the European Commission mid next year, which will be an indication of political support for the project.

A second taskforce will be established early next year to develop proposals for the progressive development and adoption of EPSASs. The Commission has already begun to seek tenders for various pieces of implementation work, and to establish various working groups on developing EPSAS.

A major objective in all this work is the desire for harmonised reporting by EU states. However, the current disparate practices within Europe, while providing much of the rationale for improvement, also represents the most significant obstacle for progress, an obstacle that was not so much of an issue when NZ and Australia transitioned to GAAP based reporting.

Strategy

The Board had a fairly wide ranging discussion on an initial draft IPSASB strategy and work plan for the period from 2015 forward. The Board will consider the paper again at the next meeting with the aim of issuing it by the end of the year.

The intention for this document is to consult on the Board's priorities once the Conceptual Framework is complete. The difficulty however is that there is a separate consultation document being prepared on 'governance' at the same time. Any work plan (and indeed governance arrangements) should follow from our strategy, and there are strategic issues the Board is facing and needs to consider. Despite the initial draft in the agenda papers being long on work plan options and short on strategic discussion, the Board did throw around a number of these strategic issues and options. These included the following:

On IPSAS Coverage and Adoption

- The need to overcome misconceptions about the coverage of IPSASs and their requirements.
- How best to operate in an environment where jurisdictions are adapting rather than adopting IPSASs – how does the Board want to respond to this in its strategy.
- A desire to track the adoption of IPSASs internationally although the Chair noted the resource that would be required to do this, highlighting difficulties the IASB has had doing this.

- Can the Board market the IPSAS on first-time adoption as a means of encouraging implementation within specific time frames?
- The role of programmes to assist implementation in African and South American countries (these programmes have previously been supported by IFAC and the World Bank).

On the Relationship with the IASB and IFRSs

- The Board more clearly presenting itself as the public sector standard setter, rather than a private sector standard converter.
- The “convergence with IFRSs approach” moving to an approach of “managing differences” so that governments that have controlled entities applying a range of accounting standards, particularly IFRSs and IPSASs, can report cohesively and understandably.
- A desire to develop a more efficient way for the Board to consider changes to standards that are developed from IFRSs.

On Relationships with Adopters

- The extent to which the Board should engage with, or establish feedback mechanisms with, countries that are adopting or have adopted IPSASs.
- The possibility of developing strategic partnerships with other organisations, such as collaboration with national standard setters, to assist the Board in working towards priorities.
- Could the Board use past and present members to assist with outreach more efficiently?
- Outreach needs to occur with preparers, auditors and other standard setters.

On Broad Priorities

- To what extent is the Board committed by the previous strategic objectives, noting that the previous strategic priorities have influenced the current work plan and led to projects which the Board is committed to finish.
- The strategic stance to take to other accountability documents issued by public sector entities, noting that RPGs have been developed (or are being developed) for long term fiscal sustainability, financial statement discussion and analysis, and service performance reporting.
- What is the Board’s role in addressing implementation questions? Most members were cognisant of the resources that this would require and did not consider it to be a current priority of the Board. However, they noted other initiatives that could be useful, such as the development of discussion forums.
- The Board agreed that it needs to form a view on its intentions with regard to the cash basis standard and communicate this to constituents. This is likely to be considered further at the next meeting.
- The Board should seek feedback on whether there is a need for a differential reporting approach (not that the Board necessarily sees it as a high priority, but for the sake of completeness).

On Board Performance

- The Board expressed a desire to focus on how the Board will assess its performance in relation to its strategic objectives. This comment was particularly pertinent given that it followed the discussion on service performance reporting.
- The Board needs to record its aspirations, whilst noting current resources and what is possible.

Without formally concluding the discussion on strategy, the Board agreed that:

- The strategic priorities¹ that have been guiding the IPSASB's activities over recent years need to be updated, with some suggestions being made on possible new priorities.
- In terms of the period the consultation document should cover, the Board made a distinction between strategy, which it considered should be long term (albeit subject to periodic review) and the work plan, which should be for a fixed time period. The Board noted that most IFAC boards currently have three-year plans but that one Board is considering moving to a five-year plan because current projects tend to dominate the work plan for a period of time. Some members felt that five years would be a more appropriate period for the IPSASB's consultation document, given the time that some projects take to complete.

At the last meeting the Board added two projects (social benefits and a research project on emissions trading schemes) to its work programme. It is not planning on adding more projects until the responses to the forthcoming consultation paper have been considered. There are a number of current projects such as the Conceptual Framework that will continue to tie up resources for the next year or so.

Recent Documents Issued

RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*

RPG 2 *Financial Statement Discussion and Analysis*

Meeting Overview

Technical Items	Decisions/ Feedback
Agenda item 2: First-time Adoption of Accrual IPSASs	ED approved
Agenda item 3: Update of IPSASs 6-8	EDs approved
Agenda item 4: Conceptual Framework	Respondents' comments on EDs reviewed Directions provided to staff
Agenda item 5: Strategy	Review of draft consultation paper
Agenda item 6: Social Benefits	Project brief approved
Agenda item 7: Service Performance Information	Review of draft ED RPG Approval to be sought in December

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

Progress on each of the agenda items (apart from item 5) is discussed in the Appendix to this report.

Next Meeting

The next meeting will be held in December 2013, in Ottawa. Meetings in 2014 will be in March, June, September and December.

¹ The current strategic priorities are:

- Developing a public sector conceptual framework;
- Public sector critical projects; and
- Communications and promoting implementation and adoption.

Progress on Conceptual Framework and Other Technical Matters

Agenda Item 2: First-time Adoption of Accrual IPSASs

The IPSASB approved the ED. This ED proposes to establish first-time adoption concessions for the growing number of entities that are adopting IPSASs. Up until now there have been concessions in a few standards, but no comprehensive guidance. The proposals won't have any immediate impact in New Zealand as we already have standards in place for first-time adoption of PBE Standards.

The ED is modelled on IFRS 1 but there are a number of differences. There will continue to be transition periods for (i) the recognition of some assets and liabilities and (ii) changing accounting policies for items that have previously been recognised. In all cases the proposed transition period is three years. Entities making use of the three-year transition periods will not be able to assert full compliance with IPSASs as these concessions are regarded as affecting fair presentation. However, they will be able to refer to their financial statements as "being in transition to IPSAS."

There will also be a number of provisions (for example, deemed cost) that will not be regarded as affecting fair presentation.

Agenda Item 3: Update of IPSASs 6 to 8

The objective of this project has been to replace IPSASs 6-8 with standards based on the equivalent new and revised IFRSs (being IFRSs 10-12 and the revised IAS 27 and IAS 28). All five EDs within this project were approved.

Developing the ED based on IFRS 10 *Consolidated Financial Statements* has been the most challenging aspect of the project, as this is the ED that has required the most public sector modifications. The key principles of the ED are based on IFRS 10, but there is considerable additional guidance and a number of examples have been added.

The IPSASB is proposing to retain the IFRS 10 requirement that investment entities account for controlled investments at fair value through surplus or deficit. However, the IPSASB is also proposing that a controlling entity that is not itself an investment entity account for an investment entity's investments at fair value and consolidate other assets and liabilities of the investment entity. The IPSASB considered that this was consistent with the principle being applied in accounting for those investments in the investment entity's financial statements.

The IPSASB also made a few modifications to the investment entity requirements and guidance in IFRS 10. Some of these changes were required to reflect the public sector environment. Others are intended to limit the number of entities that might qualify as investment entities in the public sector. The Board decided that a number of the typical characteristics of investment entities in IFRS 10 would not be typical in the public sector and has therefore not referred to typical characteristics in the ED. However, it has retained some of the guidance on typical characteristics (which can be directly linked with the definition of an investment entity) and is also proposing to require disclosures about judgements and assumptions made in determining whether an entity is an investment entity.

The ED is also an example of the Board's approach to working with the statistical community to try and make life a bit easier for entities with both financial and statistical reporting obligations. Although the guidance on control is not identical to that in the forthcoming GFSM 2013, the guidance has been aligned where possible.

Agenda Item 4: Conceptual Framework

The Framework project is still being targeted for completion in the first half of 2014. Meeting this date will continue to challenge the Board and staff.

Respondents' comments on the EDs dealing with elements and recognition, and measurement were considered in more detail at this meeting. The Board received an overview of respondents' comments on the Presentation ED.

Agenda Item 4A: Conceptual Framework – Elements

The IPSASB conducted a detailed review of respondents' comments on CF ED-2 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*.

The Board continued to struggle to reach any consensus on deferrals. While I think the majority recognise there is information value in providing a net result of operations, that shows how the cost of operations for a year has been met by funding for that year, as well as information on the increase in net assets or operating capacity for the year (the current conceptual framework approach) this has not led to a consensus view on whether deferrals should be elements. Partly the issues stem from trying to define elements of statements, when there is no agreed view about what the statements are.

There is a mixed view about whether prepayments (for example of taxes, grants) are included in the current definition of a liability, whether they require the definition of a liability to be expanded, or whether they are best reported by designating a new element, deferred revenue.

Staff will come back to the December meeting with proposals based on:

- retaining the definition of assets and liabilities, substantially as they were in the ED;
- acknowledging that some funds will be provided with expectation that there will be performance, albeit that there is not a return obligation associated with those inflows;
- acknowledging that in some cases the nature of the performance obligations will give rise to a liability and be recognised as such;
- noting that, in other (possibly few) cases, it will not be clear whether the obligations give rise to liabilities and they will form a separate element rather than being recognised in revenue until performance occurs, to reflect an expectation that the recipient will perform;
- the treatment of outflows should be a mirror image of that for inflows; and
- disengaging the concept of net financial position as distinct from net assets as proposed in the ED.

Not everyone was happy with this outcome, and there will be further discussions in December.

Agenda Item 4B: Conceptual Framework – Measurement

The IPSASB conducted a detailed review of respondents' comments on CF ED-3 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement* and provided directions to staff for finalisation of this part of the Framework. The IPSASB received 39 submissions on this ED. Staff provided an overview of two late responses, which interestingly, presented opposing views and demonstrated the range of opinions held by constituents. The take home message from this item is that the Board's views have not changed significantly from the ideas

outlined in CF ED-3, but the Board will attempt to clarify the reasons for its views in the Basis for Conclusions.

CF ED-3 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. I'm pleased to advise that the IPSASB has agreed that the Framework should include a measurement objective along the lines of the objective proposed in my Alternative View in the ED. Having a measurement objective won't necessarily give a definitive answer as to which measurement base should be used in certain circumstances, but it should help guide the Board's deliberations on measurement issues.

The Board also came to a conclusion on the issue of how to incorporate the concepts of market value and fair value in the Framework. Consistent with the proposals in the ED, the Framework will outline market value as a measurement basis. Whilst some of the discussion around fair value that was in the ED will be kept, fair value will be incorporated in the same section market value. Fair value will not be identified as a separate model. Similarly deprival value will not be presented as a separate model.

In December the Board will consider a final draft of the measurement chapter. The chapter will include sections on the:

- selection of measurement bases (including discussion of measurement objective and the qualitative characteristics);
- measurement bases for assets (current value bases and HC); and
- measurement bases for liabilities (current value bases and HC).

The Board will also consider its views on how and when the Framework should be reviewed.

Agenda Item 5: Strategy

See the covering report for a discussion of this item.

Agenda Item 6: Social Benefits

The IPSASB considered and approved a project brief on this topic. Some of you will recall that the IPSASB has previously issued consultation documents on this topic, most recently in 2008. Work on this project was halted, pending further development of the Framework, in the hope that this would shine a light on the way forward.

The ultimate objective of the project is to publish an IPSAS that defines social benefits and sub-categories of social benefits and specifies requirements (recognition, measurement and disclosure) for the financial reporting of social benefits.

At this stage the IPSASB envisages that it will issue a Consultation Paper followed by an ED, and then a standard.

The view of the Board, with one exception, was that this should be a narrow scope project, focusing on social benefits rather than all non-exchange expenses. The project will therefore not address the accounting for collective good and services such as defence. This view was informed by feedback from previous consultations.

The project will consider a range of approaches including IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 25, *Employee Benefits*, recent New Zealand guidance on recognising a present obligation, an approach developed in France, and the possible application of insurance accounting concepts to social benefits. The Board also noted that there is an international group which is attempting to harmonise the terminology in classifying social benefits and will have regard to the work of that group.

Agenda Item 7: Service Performance

The IPSASB provided feedback on a draft RPG on reporting service performance. Because this is the IPSASB's first pronouncement in this area and because it is designed to be applicable internationally, the proposals in the RPG are necessarily fairly high level. However, the RPG will establish some important principles and will hopefully lead to more consistent use of terminology.

Issues discussed at the meeting included the following:

- Selection of services to be reported: The RPG will note that some form of selection and aggregation is usually required to avoid information overload and will provide some guidance on how to do this. The Board agreed that there would need to be additional guidance explaining the application of the principles to the consolidated level.
- Selection of performance indicators to be reported: The RPG will provide guidance on selecting performance indicators. This will include the importance of linking with the entity's objectives and an encouragement to move beyond output indicators. It will also highlight the need for the selection of indicators to be guided by the qualitative characteristics.
- Acknowledgement of legislative requirements: The RPG will note that it specifies minimum requirements and entities would also need to have regard to specific legislative or regulatory requirements in their jurisdiction.
- Definitions: The Board fine-tuned the definitions.
- The application of the RPG to Government Business Enterprises (GBEs): Although the RPG will state that it applies to public sector entities other than GBEs, the Basis for Conclusions will note that some GBEs have service performance reporting obligations and could find the guidance useful.
- The RPG is based on the proposals in CF ED-4 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation* and uses the display/disclosure terminology used in that ED. As the IPSASB has not yet formally concluded on the proposals in CF ED-4, the RPG's Basis for Conclusions will note that the use of this terminology will be reviewed when the Framework has been finalised. However, I doubt that this would have any impact on the principles in the RGP.