IPSASB International Public Sector Accounting Standards Board

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# MEETING HIGHLIGHTS

September 2013

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For more detailed information about IPSASB projects, please refer to the project summaries under Current Projects on the IPSASB website.

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## First-Time Adoption of Accrual Basis IPSASs

The IPSASB debated four issues impacting the finalization of the proposed Exposure Draft (ED), before voting to approve the document.

**Matters for consideration**

The IPSASB considered the proposed transitional exemption that should be provided where a first-time adopter elects to adopt the three year transitional relief period to not recognize an asset, and where it elects to apply the allowed alternative method (capitalization) in accounting for borrowing costs on qualifying assets. At its June 2013 meeting, the IPSASB agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSASs, for which the commencement date for the capitalization is prior to the date of adoption of IPSASs, should be accounted for retrospectively. In addressing the interaction between IPSAS 5 *Borrowing Costs* and the specific Standards dealing with assets where a first-time adopter elects not to recognize an asset for a period of time, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs incurred on qualifying assets, until such time as the exemptions that provided the relief for the recognition of the assets have expired and/or the relevant assets have been recognized in the financial statements in accordance with the applicable IPSASs (whichever is earlier). The IPSASB concluded that it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset.

In applying the deemed cost principles consistently in the proposed ED, the IPSASB agreed that a first-time adopter should also be allowed to determine a deemed cost for financial instruments on the initial adoption of accrual basis IPSASs.

At a previous meeting, the IPSASB agreed that a first-time adopter may determine a deemed cost on initial adoption of accrual basis IPSASs for, amongst others, an intangible asset other than an internally generated intangible asset. The IPSASB confirmed that internally generated intangible assets should specifically be excluded from the paragraph dealing with deemed cost, rather than to allow a first-time adopter to make its own assessment on whether an active market exists for an internally generated intangible asset.

The IPSASB re-confirmed its previous decision that the transitional exemption to not require segment reporting for three years, will not impact the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs. The IPSASB noted that, even though the presentation of segment information might be useful, information used in presenting segment information will be built up from existing information on the elements presented in the financial statements.

In reviewing the proposed ED, the IPSASB agreed various amendments. In clarifying the difference between those transitional exemptions that do not affect fair presentation and a first-time adopter's ability to assert compliance with accrual basis IPSASs, and those transitional exemptions that do affect fair presentation and a first-time adopter's ability to assert compliance with accrual basis IPSASs, the IPSASB agreed that the terms "first IPSAS financial statements" and "transitional IPSAS financial statements" should be defined and used in the ED.

The IPSASB agreed in June 2013 that, to the extent that non-monetary assets and liabilities have been recognized by a first-time adopter under its previous basis of accounting, a three year relief period should be granted for the measurement of such assets and liabilities. To the extent that a first-time adopter has not recognized any non-monetary assets and liabilities under its previous basis of accounting, a three year transitional relief period will be granted for the recognition of such assets and liabilities. The IPSASB agreed that this principle should also be applied to the recognition and/or measurement of monetary assets, except for finance leased assets and the related finance lease liability where relief will only be provided for the recognition of such assets and/or liabilities.

The IPSASB also agreed to clarify the transitional exemptions relating to the presentation of comparative information, and the presentation and disclosure requirements proposed in the ED.

It was further agreed that a proposed transitional provision paragraph should be included in the ED, to allow a first-time adopter that has taken advantage of existing transitional exemptions in other accrual basis IPSASs, to continue to apply the transitional exemptions in those IPSASs. As an alternative, a first-time adopter may elect to apply the transitional exemptions provided in this ED, as long as the relief period does not exceed the three year period provided in the ED.

The IPSASB approved the ED.

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## Update of IPSASs 6–8

The IPSASB approved the five EDs that contain proposals to replace the current requirements in IPSAS 6 to 8. The five EDs are:

- ED 48, *Separate Financial Statements*
- ED 49, *Consolidated Financial Statements*
- ED 50, *Investments in Associates and Joint Ventures*
- ED 51, *Joint Arrangements*
- ED 52, *Disclosure of Interests in Other Entities.*

The IPSASB developed these EDs having regard to relevant IFRSs (IFRSs 10–12 and the revised IAS 27 and IAS 28) but is proposing significant changes to make the standards appropriate for application in the public sector.

ED 49, *Consolidation Financial Statements,* in particular will contain additional public sector guidance and examples. Although this ED will define investment entities and propose that they account for their investments at fair value through surplus and deficit (similar to IFRS 10), the IPSASB has developed proposals to limit the number of entities that might be identified as investment entities. The IPSASB is also proposing that a controlling entity, that is not itself an investment entity, account in its consolidated financial statements, for the investments of a controlled investment entity at fair value through surplus or deficit. The IPSASB considered that this proposed accounting was consistent with the way that these investments are managed. The controlling entity would consolidate the other assets and liabilities of a controlled investment entity.  Disclosures will be required about the judgments and assumptions made in determining whether an entity is an investment entity.

ED 49 also illustrates the IPSASB's approach to working with the statistical accounting community to remove unnecessary differences for entities with both financial and statistical reporting obligations. Although the guidance on control is not identical to that in the forthcoming revision of the Government Financial Statistics Manual, the guidance has been aligned where possible.

The EDs will be released shortly.

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## Conceptual Framework

### Timetable

Following a review of the timetable the IPSASB agreed to put back the projected approval date for the final chapters from Phases 2, 3 and 4 and the Preface from March 2014 to June 2014.

### IASB Conceptual Framework Discussion Paper

The IPSASB noted that the IASB's Discussion Paper (DP), *A Review of the Conceptual Framework for Financial Reporting*, had been issued on July 18th. The IPSASB discussed aspects of the DP, particularly the proposed asset and liability definitions, the approach to stand-ready obligations and obligations conditional on future events within the entity's control and the approach to measurement. The IPSASB noted that there was substantive congruence between the asset and liability definitions of the IPSASB and the IASB. The IPSASB also noted that the IASB is currently proposing a mixed measurement approach for measurement and a measurement objective that is not based on a concept of capital or capital maintenance. The IPSASB also noted the IASB's evolving approach to presentation and the narrow and broad approaches for distinguishing Other Comprehensive Income items from profit and loss.

### Phase 2—Elements

The IPSASB continued its review of responses to the ED, *Elements and Recognition in Financial Statements*, (CF–ED2).

The IPSASB discussed staff papers which included further analysis of responses to CF–ED2 and an analysis of the measures of financial performance, net assets and net financial position that would result from application of CF–ED2 in different circumstances. The IPSASB noted that a majority of respondents did not support the identification of deferred inflows and deferred outflows as separate elements and expressed concern about the measures of financial performance that would result from their application.

Members discussed how this aspect of the proposals in CF–ED2 might be further developed, including the following approaches identified by staff and the Task Based Group (TBG):

- A presentational approach which would identify and describe time stipulated inflows and outflows that did not satisfy the definitions of assets or liabilities as separate classes of revenue or expense, noting that the separate disclosure of this class of revenue or expense had informational value. The statement of financial position would also identify the assets that were subject to time stipulations.
- An approach that disengaged the identification and definition of the elements from issues related to their presentation, and refocused this proposed Chapter of the Conceptual Framework on only the identification and definitions of the elements. The composition and type of the financial statements that would be used to present the elements could then be specified at standards level, may evolve over time and may be influenced by jurisdictional considerations. Consistent with this approach, the Conceptual Framework would:
    - Identify the elements of financial statements as assets, liabilities, revenue, expenses, ownership contributions and ownership distributions and acknowledge that certain deferred items that did not satisfy the definition of an element may also be presented in the financial statements, and may be identified as separate elements; and
    - Not specify the measure (or measures) of financial performance that was to be reflected in the financial statements or the financial statements in which each element would be recognised.

The IPSASB agreed to consider these approaches further at the next meeting and directed staff and the TBG to prepare a paper which further developed and explained the approaches.

The IPSASB then continued its review of responses to the definition and explanation of the other elements identified in CF–ED2, and staff's proposed amendments to give effect to decisions made at the June 2013 IPSASB meeting. The IPSASB approved a number of amendments to CF–ED2, including:

- Refinements to sharpen the definition of an asset and clarify the relationship of a resource to an asset, and refinements to the definition of a liability and description of a present obligation for similar effect;
- Enhancements to the Basis for Conclusions to, for example:
    - Explain the public sector circumstances that underpin the IPSASB's approach to use of terms such as stand-ready obligations and performance obligations in the Conceptual Framework; and identification of the indicators of control of an assets; and
    - Note that guidance may be provided at standards level on dealing with circumstances in which there is significant uncertainty about whether an element exists, and therefore would satisfy the criteria for recognition.

The IPSASB also discussed issues identified by respondents in respect of the definitions of revenues and expenses and agreed these matters would be revisited pending decisions on the identification of deferred inflows and deferred outflows as elements.

**Phase 3—Measurement**

The IPSASB continued its review of responses to the ED, *Measurement of Assets and Liabilities* (CF–ED3). The IPSASB acknowledged the view that the Framework should be aspirational and adopt a measurement objective based on an ideal concept of capital. The IPSASB concluded that different assets and liabilities contribute to financial capacity or operational capacity in different ways and directed that the mixed-measurement approach in CF–ED3 should be retained. The IPSASB considered a view that the rationale for historical cost could be strengthened by including a view that historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, thereby enhancing accountability and agreed that this should be reflected in either the core text or Basis for Conclusions of the final chapter.

The IPSASB reviewed the measurement objective in the Alternative View (AV) in CF–ED3 and considered the view of the Task Based Group that the objective could accommodate historical cost through the linkage with the cost of services where the Basis for Conclusions in CF–ED3 stated that "historical cost provides information on what services actually cost in the reporting period". Historical cost is therefore consistent with the accountability objective. The IPSASB directed that the measurement objective in the AV should be adopted with a minor wording change. The objective in the draft final chapter will therefore be: *To select those measurement bases that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes*.

The IPSASB considered the four current value measurement bases for assets proposed in CF–ED3: market value, replacement cost, net selling price and value in use. Staff again highlighted the views of those who argued that the omission of fair value is a serious defect and noted that current value measurement requirements or options in a number of existing IPSASs rely on fair value. Staff noted that the fair value definition in IFRS 13, *Fair Value Measurement*, is explicitly an exit value, which refers to the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." It therefore differs from the definition of fair value in the IPSASB's literature that is based on the pre-IFRS 13 definition of fair value. Staff expressed a view that there were three options: (i) adopt the IFRS definition of fair value; (ii) retain the current IPSASB definition of fair value; or (iii) remove fair value as a measurement basis altogether and replace with market value. There are disadvantages with all these approaches. Adopting the IFRS definition would mean using a definition of fair value that is not well aligned with the objectives of most public sector entities-the delivery of services rather than the generation of cash flows. Retaining the current definition or a slightly modified version of the current definition in the IPSASB literature would mean that two global standard setters would have different definitions of the same term. Defining market value rather than fair value has implications for the IPSASB's current literature, which, as indicated above, uses fair value widely.

The IPSASB noted that fair value had been developed over recent years and that the IPSASB approach to fair value had not developed in step. After considerable debate the IPSASB decided to retain market value in the final chapter. The IPSASB also decided to retain replacement cost and to note that replacement cost should be referred to as an optimized basis that reflects depreciation and relates to the replacement of service potential rather than an actual asset. It was also agreed that, where there is a market that is sufficiently open, active and orderly market value may be the appropriate measurement basis for operational assets, such as administrative buildings.

The IPSASB discussed a view that net selling price is a variant of fair value and that it should not be retained as a separate basis in the final chapter. The IPSASB took the view that net selling price may relate to contractually-agreed terms that do not reflect an open, active and orderly market and that it may also reflect an intention to make an immediate exit from an asset. It should therefore be retained as a separate measurement basis. The IPSASB also decided to retain value in use, noting that its applicability might be quite limited, mainly to impairments.

The IPSASB confirmed the tentative view at the June meeting that the fair value model-method of determining market value where it has been determined that market value is the appropriate measurement basis, but the market is inactive, or otherwise not open or orderly, and the deprival value model for selecting a current value measurement basis for operational assets should not be retained in the final chapter. Some of the material in the fair value model can be relocated in the section of the chapter on current value measurement bases dealing with market value and some of the insights in the deprival value model can be included in the sections dealing with replacement cost, net selling price and value in use.

The IPSASB confirmed that five measurement bases for liabilities proposed in CF-ED3 should be retained: historical cost, market value, cost of fulfillment, cost of release and assumption price. It acknowledged the need to limit the number of measurement bases and the views of those who argued that cost of release and assumption price are of limited applicability in the public sector. Nevertheless, the IPSASB directed that the cost of release and assumption price will be retained. The Basis for Conclusions of the final chapter will note that these bases are unlikely to be applicable to many transactions in the public sector, particularly in a non-exchange context.

The IPSASB agreed that in the final chapter there should be references to the unit of account, income-based present value valuation approaches for estimating market value and other cash-flow based measures that do not seek to provide a market value. For liabilities such references might be included in discussion of the cost of fulfillment.

### Phase 4—Presentation

The IPSASB heard staff's preliminary high level review of responses to the ED, *Presentation in General Purpose Financial Reports* (CF–ED4). 33 responses had been received by mid-September. A majority of respondents supported the concepts in CF–ED4. The most controversial issue was the ED's presentation terminology.

There will be a detailed review of responses on CF–ED4 at the IPSASB's December 2013 meeting.

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## Social Benefits

The IPSASB considered a project brief on accounting for social benefits. The project brief highlighted the considerable amount of work that the IPSASB (and its predecessor, the Public Sector Committee) had carried out on social benefits prior to the deactivation of the project in 2008. The outputs included an Invitation to Comment, *Accounting for Social Policies of Governments*, and Consultation Paper, *Social Benefits: Issues in Recognition and Measurement*. It was noted that the IPSASB had been developing proposals for an ED based on a modified due and payable approach for cash transfers, but that this approach had been reevaluated in late 2006. The project had been deactivated in 2008, because of the linkage of key areas with the Elements and Recognition phase of the Conceptual Framework project, particularly the definitions of an asset and a liability.

The IPSASB considered a view that the scope of the project should be narrow and exclude what had been termed collective goods and services (for example, defense, policing and, criminal justice) where there had been virtual unanimity amongst consultation respondents and IPSASB members that, if a present obligation arises at all, this is not prior to the delivery of services. The IPSASB explored an alternative view that the project should be broad in scope and address all expenses arising from non-exchange transactions, rather than just those related to social benefits. The IPSASB acknowledged the rationale for a broader scope project, but in view of the importance of addressing a key area of the operations of many governments and other public sector entities it was decided to limit the scope of the project to social benefits. Collective goods and services will not be within the definition of social benefits.

In light of the considerable work carried out in this area the IPSASB considered whether it is necessary to develop a Consultation Paper (CP) rather than going straight to ED stage. The IPSASB decided that, in view of the time since the publication of the last CP and the importance of the area, a new CP should be developed. Development of a CP would also allow the IPSASB to consider developments since early 2008 and to discuss complex issues such as social security systems, which operate as social assistance and social insurance schemes.

The IPSASB approved the project brief.

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## Reporting Service Performance Information

The IPSASB considered two issues related to a draft Recommended Practice Guide (RPG) on reporting service performance information and then did a page-by-page review of the draft RPG. With respect to the first issue—whether there should be an encouragement in the RPG for Government Business Enterprises to apply the RPG—the IPSASB decided that the RPG's wording should remain consistent with that used in other RPGs, where the RPG applies to entities *other than* GBEs. With respect to the second issue—performance indicator definitions—the IPSASB identified further revisions and one additional definition, "services", for inclusion in the RPG.

The draft RPG will be revised and circulated to IPSASB members for an inter-meeting review, before being considered at the IPSASB's December 2013 meeting with a view to approval.

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## Strategy

The IPSASB is undertaking a broad review of its strategic priorities for the period from 2015 forward. At this meeting they held their first in-depth debate on this review, which is intended to result in a public consultation paper to be issued in March 2014.

The IPSASB discussed whether there should be a defined period for the strategy and expressed a preliminary view that this should be more open-ended but that the related work program should be for a finite period of 5 years i.e. 2015-2019.

The IPSASB discussed strategic priorities generally in the context of its role in enhancing public sector financial management as well as engagement with stakeholders. The Task Based Group for this project will develop a draft document for further discussion and review at the December 2013 meeting.

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## Governance and Oversight Update

The IPSASB received an update on the IPSASB Governance Review, from observers present at the meeting, on the status of the development of the consultation paper on the future governance and oversight structure of the IPSASB. The consultation paper is currently being finalized by the review group and is planned to be released later in 2013 for comment.

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## Next Meeting

The next IPSASB meeting will be held in Ottawa, Canada on December 2–5, 2013.