

**IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

**AASB Staff Issues Paper**

**Introduction**

- 1 The IPSASB issued Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* in October 2013 with comments due by 15 February 2014. This Issues Paper has been prepared by staff with the intention of identifying any issues and comments that could be addressed in a submission to the International Public Sector Accounting Standards Board (IPSASB) in respect of IPSAS ED 53.
- 2 At present, there is no IPSAS that addresses transition to the accrual basis suite of IPSASs. Although the IPSASB gave consideration was given to IFRS 1 *First-time Adoption of International Financial Reporting Standards* this project is not considered to be a convergence project.
- 3 The objective of the proposals in the ED is to provide relief, in the form of exemptions, to entities that wish to transition to accrual basis International Public Sector Accounting Standards (IPSASs). Specifically IPSAS ED 53 allows a first-time adopter a three-year transition period to recognise certain assets and liabilities. The reasoning for this is that some entities may not have available the comprehensive information necessary about the existence of assets and liabilities, and that considerable effort may be required to identify, measure and classify assets and liabilities in accordance with IPSASs.
- 4 IPSAS ED 53 contains three matters for comment, these and staff comments are detailed below.

**Matters for Comment**

***Matter for Comment 1***

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt accrual basis IPSASs for the first time.

- (a) Do you agree with the proposed transitional exemptions included in the Exposure Draft; and
- (b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

***AASB Staff Analysis***

- 5 Staff consider that, for entities currently applying cash accounting, one of the greatest hurdles to adopting an accrual basis accounting framework will be the recognition and measurement of assets and liabilities. Therefore, in order to attract more jurisdictions to either adopt accrual IPSASs or move from Cash Basis IPSAS – *Financial Reporting Under the Cash Basis of Accounting*, concessions need to be made.

- 6 Much of the relief proposed in IPSAS ED 53 generally surrounds the recognition and measurement of assets and liabilities. Therefore, in this respect, the objective to provide transitional relief to first-time adopters has been achieved.
- 7 In response to Matter for Comment 1(a) staff generally agree with the proposed transitional exemptions included in the ED.
- 8 However, staff query the relief provided for applying IPSAS 5 *Borrowing Costs*. More specifically, when a first-time adopter elects to account for borrowing costs in terms of the allowed alternative treatment (capitalisation rather than expensing) they are not required to capitalise borrowing costs until the relief period has expired and/or the relevant assets are recognised and/or measured in accordance with the applicable IPSASs whichever is earlier (paragraphs 42 and 43). Staff are of the opinion that there should also be a restriction on capitalising borrowing costs before a qualifying asset is recognised and measured under the applicable IPSAS, otherwise it is possible that only the borrowing costs, and not the related asset, is recognised on transition.
- 9 Regarding Matter for Comment 1(b), staff agree that the proposals in the ED achieves the goal of providing appropriate relief to a first-time adopter transitions to accrual basis IPSASs.

#### **Question 1 to the Board**

- (a) Do Board members agree with the staff comments in regards to Matter for Comment 1 concerning:
  - Proposed transitional exemptions; and
  - Whether the IPSASB has achieved its goal of providing appropriate relief to a first-time adopter transitioning to accrual basis IPSASs?
- (b) Do Board members wish to add any other comments?

#### ***Matter for Comment 2***

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

- (a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and

- (b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

#### ***AASB Staff Analysis***

- 10 The ED proposes to split the relief exemptions into two categories;
  - Those that affect fair presentation and compliance with accrual basis IPSASs during the period of transition; and

- Those that do not affect fair presentation and compliance with accrual basis IPSASs.
- 11 The exemptions that affect fair presentation and compliance are generally those exemptions where an entity can defer recognition and measurement of certain assets and liabilities for up to three years. Entities that take advantage of these exemptions cannot claim compliance with accrual basis IPSASs until the exemptions have expired and/or when the relevant items are recognised and/or measured in accordance with the applicable IPSASs.
  - 12 Those exemptions that do not affect fair presentation and compliance are akin to exemptions provided in IFRS 1 and entities that take advantage of these exemptions but not those in described in paragraph 11 above can claim compliance with accrual basis IPSASs during the transition period.
  - 13 As mentioned in paragraph 5 above the exemptions are proposed to encourage entities to adopt IPSASs. The two categories were developed to address concerns from some IPSASB members that, without the categorisation, financial statements that were missing significant classes of items could be regarded as being in compliance with IPSASs.
  - 14 Regarding Matter for Comment 2(a) and (b) staff agree with the proposed differentiation and how it is addressed and also consider that the individual categorisation is appropriate.

#### **Question 2 to the Board**

- (a) Do Board members agree with staff comments in regards of Matter for Comment 2 concerning;
  - The proposed differentiation of exemptions; and
  - The categorisation of exemptions?
- (b) Do Board members wish to add any other comments?

#### ***Matter for Comment 3***

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs. Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

#### ***AASB Staff Analysis***

- 15 Regarding Matter for Comment 3, as a means of encouraging entities to adopt accrual basis IPSAS, staff agree with the three-year transitional period for a first-time adopter.
- 16 However, staff are unsure what assertion a first-time adopter would make in regards of their financial statements if they fail to transition fully to accrual basis IPSASs within

the three-year period. Would they still be able to assert they are in transition or could no assertion be made? Staff consider that this issue should be clarified in the final IPSAS because if entities could still assert they are in transition, this has the potential to reduce the incentive to transition fully within the given time-frame.

**Question 3 to the Board**

- (a) Do Board members agree with staff comments in regards of Matter for Comment 3 concerning;
- The three-year transitional relief period; and
  - The concerns staff have regarding first-time adopters who have not transitioned within the three-year period?
- (b) Do Board members wish to add any other comments?