



Memorandum

To:	AASB Members	Date:	10 February 2014
From:	Kevin Stevenson	Agenda Item:	12.7 (M136)
Subject:	The Future Governance of IPSASB	File:	

Action

To decide whether to make a submission to The International Public Sector Accounting Standards Board Governance Review Group (Review Group), on its Consultation Paper (CP) *The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) January 2014*.

If so, what is the basic position of the AASB on the options raised by the Review Group? Staff recommendations follow.

Comments to the Review Group are due by 30 April 2014.

Attachments

12.7.1 The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) (January 2014)

Background

The formation of Review Group (see CP cover for members) was intended to rejuvenate moves to establish proper governance arrangements for IPSASB. As the CP indicates, the IPSASB has been criticised for a lack of the type of governance structure enjoyed by major domestic standard-setters and by the IASB. The CP states that the “adoption of IPSASs by national governments remains low” and is looking at options to negate criticisms that this is because of a lack of adequate governance. The IPSASB readily agrees that it does not have an adequate governance structure and is actively promoting the consideration of the options raised in the CP.

This commentary focuses on the options raised in the CP (see page 15 of the CP onwards). Members are encouraged to read the CP for the context and history leading to them being raised.

Why Should the AASB be concerned?

The stance of the AASB has been to develop transaction neutral standards based on IFRS, with opportunistic consideration of IPSAS when considered beneficial. The AASB shares the belief of the IPSASB that public sector reporting is of critical importance and that the objective and outcome of the AASB’s approach and that of the IPSASB are very compatible.

The AASB has consistently argued for convergence of IFRS and IPSAS and has encouraged the IASB and IPSASB to work closely with each other. In this light, it has been the AASB's view that the IPSASB should be supported in its efforts and the AASB has previously argued for better governance arrangements to be put in place. The CP provides another opportunity to put forward the AASB's case. The FRC is aware that the AASB is considering making a submission and is supportive of it doing so if it wishes to. The FRC may consider a complementary submission based on the AASB submission.

Staff Recommendations

Staff recommend that the AASB should, consistent with its past stance on the need for improved IPSASB governance, make a submission to the Review Group with a view to having the governance arrangements for IPSASB improved.

Question for the Board

Q1 Does the Board agree with the staff recommendation?

If the Board agrees with the staff recommendation to make a submission, the issue becomes one of whether it should support one of the three options put forward or some other approach.

The Options are:

1. Extending the scope of the IFRS Foundation's Monitoring Board and Trustees Activities (CP page 15);
2. Establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of the International Federation of Accountants (IFAC) (CP page 16); or
3. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies (CP page 17).

The CP outlines pros and cons of each of these approaches. If one were to place weight on having the option in place quickly and with least funding uncertainty, Option 2 would seem to be the only viable option. Apparently IFAC would be prepared to fund that option and the establishment could be achieved relatively (i.e. relative to the other options) quickly.

The IFRS Foundation has indicated that it considers its priorities as being such as to preclude Option 1 in the near term and, in any event, it does not have the funding to do it at present.

Option 3, which may be a replication of the IASB model or maybe the introduction of a European styled alternative structure (e.g. the bi-cameral model suggested for IASB originally or the European Public Sector Accounting Standards (EPSAS) model, which seems similar), would also take quite a deal of time and money.

Another way of looking at the issue is to focus on what needs to be achieved and less on the constraints of timing and cost. What is the ideal? Looked at this way only Options 1 and 3 are viable as Option 2 does not overcome the criticism that the IPSASB will remain a child of the accounting profession under that option. It is interesting to note the wording of the option - "while it remains under the auspices of IFAC". The authors seem to be seeing Option 2 as a temporary one. They too may see Option 1 or Option 3 as ideal.

From the AASB's perspective, Option 1 offers much, as that option could be expected to have more chance of achieving convergence between the activities of the IASB and IPSASB and to leverage the existing resources and governance experience of the IFRS Foundation. Option 3 may achieve independence and governance but may drive a wedge between the two international structures. If it led to the European model, it may well also compromise the independence of the IPSASB, as the constituent jurisdictions would oversee the "working party" activities that would be the IPSASB.

Whether Option 1 is viable depends heavily on good faith and willingness. AASB staff do not think funding is a real issue as the additional governance cost and even the budget of the IPSASB are relatively quite small. They would be insignificant, for example, if a small number of governments made modest contributions. We know that Option 1 would be unpopular with those who really do not want to place themselves in the hands of a private sector independent body (again) or who really do not want to follow IPSAS fully. But we think Option 1 is the ideal to which the Review Group should aim.

Staff Recommendations

We recommend that the AASB support Option 1 as the ideal direction and that to defuse the criticism of IPSASB's lack of good governance arrangements, as quickly as possible, that Option 2 be adopted as a step towards adopting Option 1 (which should be adopted within a specified timeframe). We recommend that Option 2 per se and Option 3 be opposed.

AASB staff also recommends that the submission be finalised by the Chairman and the IPSASB Subcommittee (Ian McPhee, Peter Gibson, and Peter Carlson) expanded to include Steve Mitsas.

Question for the Board

Q2 Does the Board agree with the staff recommendations?
--