

12 December 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 – December 2013

Introduction

The fourth IPSASB meeting for 2013 was held in Ottawa, on 2-5 December. 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 were present. Ian Macintosh, the Vice-Chairman of the International Accounting Standards Board, attended and gave a presentation on the IASB's Conceptual Framework project. David Vault and David Bean from GASB were present for part of the meeting. Angela Ryan from the NZ ASB was also an observer.

There is a new staff member, João Fonseca, from Portugal. Paul Mason, who will join the staff in January 2014, was present for part of the meeting. Once Paul is on board the IPSASB will be fully staffed.

Oversight and Governance

Brian Quinn of the World Bank updated the IPSASB on the development, by the Governance Review Group, of a consultation paper on oversight and related governance issues. The document has been drafted, sent to various stakeholders for feedback, and is currently being revised to address that feedback. I understand that much of the delay has been caused through the desire for the paper to present more than one option for consideration, with those options being realistic and the challenges involved with them being fairly presented. The IPSASB Chair and senior staff were involved in the feedback process. The consultation paper is expected to be issued mid-January 2014. A two month comment period is likely.

The IPSASB will comment on the paper, either by seeking views during a meeting, or via the Chair if the comment date prevents this.

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. Istvan Vargas, from Eurostat, provided the Board with an update on current activities.

Eurostat has recently issued a public consultation paper *Towards implementing European Public Sector Accounting Standards (EPSAS) for EU member States – Public Consultation on future EPSAS governance principles and structures*. The proposals were developed by a Taskforce of experts delegated from EU national governments.

A study on the costs and benefits of harmonised accrual accounting in Europe is underway and visits to various countries are being scheduled. There are ongoing meetings, with most member states participating in a Taskforce meeting held in September. The IPSASB will have observer status at Taskforce meetings. The European Commission is still expected to issue a communication on accrual accounting mid 2014.

More detailed proposals for development of EPSASs will be developed next year. This is likely to be a lengthy process.

Strategy

The Board provided feedback on a draft consultation paper on the IPSASB's strategy and work plan for the period from 2015 forward. The Board will consider the paper again at the next meeting.

The proposed strategic objective in the agenda papers was:

Contributing to stronger Public Financial Management globally through developing and maintaining a high-quality public sector financial reporting framework.

The Board made some suggestions to refine the objective. One comment was that the objective should link to Board policies designed to achieve the strategic objective. Such policies include Due Process, being an existing policy, and policies on the following:

- Alignment with GFS (approved at this meeting);
- Rules of the Road (existing, but due to be revised);
- Outreach (to be developed); and
- Process for obtaining feedback (to be developed).

The proposed Work Programme Agenda then would set out the outputs (standards) that the Board would prioritise to achieve the desired outcomes.

Meeting Overview

Technical Items	Decisions/ Feedback
2: Service Performance Information	Approved Exposure Draft of Recommended Practice Guide
3: Emissions Trading Schemes	Approved project brief
4: Public Sector Financial Instruments	Approved project brief
5: Government Business Enterprises	Reviewed draft Consultation Paper
6: Conceptual Framework	Noted timetable
6A: Conceptual Framework – IASB Discussion Paper	Received presentation on IASB Discussion Paper
6B: Conceptual Framework – Elements and Recognition	Discussed issues (deferrals again) and reviewed sections of final chapter
6C: Conceptual Framework – Measurement	Reviewed draft of final chapter
6D: Conceptual Framework – Presentation	Considered responses to ED
7: Strategy	Reviewed draft Consultation Paper
8: GFS Alignment	Approved policy on approach to alignment Noted ongoing work Discussed possible projects

The agenda papers are available at <http://www.ifac.org/public-sector/meetings>.
Progress on each of the agenda items (apart from item 7) is discussed in the Appendix to this report.

Next Meeting

The next meeting will be held in March 2014, in Toronto. Other meetings in 2014 will be June (Toronto), September (Brussels) and December (Toronto).

Progress on Conceptual Framework and Other Technical Matters

Agenda Item 2: Service Performance Information

The IPSASB approved an exposure draft of an RPG on reporting service performance. This is an important public sector specific project for the IPSASB. Key points from the ED include:

- It defines terms such as outputs, outcomes, efficiency, and effectiveness.
- The reporting boundary for service performance information should be the same as that used for the financial statements. The ED contains guidance on reporting service performance information when the reporting entity is a controlling entity.
- Service performance information should be presented annually for the same reporting period as that covered by the financial statements.
- An entity should report service performance information that is useful for accountability and decision making. It should enable users to assess the entity's:
 - (a) service delivery activities and achievements during the reporting period;
 - (b) financial results in the context of its achievement of service delivery objectives; and
 - (c) efficiency and effectiveness of the entity's service delivery.
- Qualitative characteristics apply to service performance information.
- Service performance information should identify an entity's important services, relevant performance indicators and other information relevant to those services.
- Aggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements.
- The basis of preparation of the service performance information should be provided
- A narrative discussion and analysis should provide an overview of service performance results, cover both positive and negative aspects of the entity's service performance, and include:
 - (a) balanced explanations of the information presented;
 - (b) identification and discussion of the factors that may have influenced results, including those influencing achievement (or non-achievement) of service performance objectives;
 - (c) identification and discussion of the risks associated with the delivery of services; and
 - (d) identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.
- An entity may present service performance information as part of a report that includes the financial statements, or in a separately issued report.

This isn't a complete summary – for more detail see the ED which is expected to be issued early in January.

The Board spent quite a lot of time reviewing the draft RPG, but a lot of the comments could be regarded as drafting rather than changing the proposals. The comment period on the ED is expected to be until the end of April 2014.

Agenda Item 3: Emissions Trading Schemes

The IPSASB approved a project brief to develop requirements and guidance on accounting for emissions trading schemes (ETS). The project will consider accounting for both administrators and participants in ETS. The IASB currently has a research project on ETS and this project will allow the IPSASB to develop requirements for public sector administrators and participants of statutory ETS, whilst having regard to the IASB's proposals for participants. The topic presents a great opportunity for the IASB and IPSASB to look at different sides of the same issue. The project is being described as a joint project – until each board develops a consultation paper. The Board agreed that the project should also have regard to Eurostat's work.

Some observations made about ETS included:

- Prices are volatile and fluctuations in prices can have a significant impact on a government's financial statements.
- The environment is likely to change over time. We have already seen this over the last few years with price drops. In the future it is likely that there will be more auctioning of units. This will give rise to different accounting issues.
- Permits don't respect country borders. They may be issued in one country, traded in another, and surrendered in yet another.
- There is a need for central agencies to keep track of permits.

The initial focus of this project will be on research. Following that the Board will develop a consultation paper setting out its views both on the issues, and how it intends to address those issues in its pronouncements (i.e. as standards, amendments to standards, or guidance).

Agenda Item 4: Public Sector Financial Instruments

The IPSASB approved a project brief to develop requirements and guidance on accounting for certain public sector specific financial instruments which are not within the scope of the financial instruments standards. Issues that had previously been identified as requiring guidance were monetary gold, statutory receivables (which are not technically financial instruments), IMF special drawing rights and currency issued.

It was agreed that the project should also cover securitisations of sovereign revenue. The Board was advised that in the 2000s, many European governments securitised future revenues to reduce their reported deficits, selling rights to receive future revenues. For example, Belgium and Portugal securitised tax receivables, Greece securitised lottery proceeds, air traffic control fees, and EU grants, and Italy reportedly raised €66 billion - €90 billion through securitisations.

The IPSASB agreed that all the issues identified in the project brief should be researched, and a consultation paper produced. The IPSASB agreed that the research phase should elicit the views of other interested parties, such as the IMF, central banks and banking regulators.

The IPSASB noted that although some of these issues are similar to financial instruments, they are not actually financial instruments, and the Board has not yet made any decision about how any guidance would be promulgated. The project could lead to separate guidance, or amendments to other standards. The first step will be to develop a consultation paper. As a result the project brief for the paper was altered to focus on the first phase and release of a consultation paper.

Agenda Item 5: Government Business Enterprises

The IPSASB has had a few discussions about this issue. Currently the Preface to IPSASs states that GBEs do not apply IFRSs and the scope section in each IPSAS excludes GBEs. However, as noted by the IPSASB at their last meeting, (i) the decision on whether to apply IPSAS, IFRS or local private sector GAAP to any public sector entity is taken by the relevant regulator in a jurisdiction and (ii) the types of entities referred to as GBEs differ between jurisdictions.

The upshot of this is that the IPSASB has developed a consultation paper to seek views on its approach to GBEs. The IPSASB will seek views on two options:

- (a) Option 1: describe the characteristics of public sector entities which the IPSASB considers when developing IPSASs, rather than defining GBEs; or
- (b) Option 2: continue to define GBEs. Constituents' views will also be sought on whether the IPSASB should clarify the existing definition and/or narrow that definition.

The IPSASB will have another look at the draft paper, with a view to approving it in March. The Board is leaning towards Option 1 and this is likely to be put forward as a preliminary view of the Board. The paper will also need to spell out the consequences of each approach. Under Option 1 the Board could also identify characteristics of entities that it does not envisage applying IPSASs. The Board is still considering which variations of Option 2 to present to constituents.

Agenda Item 6: Conceptual Framework

The Framework discussion took place in four parts:

- 6A A presentation by Ian Macintosh on the IASB's Discussion Paper
- 6B Elements and Recognition: A discussion of issues (including deferrals) and a review of sections of the final chapter
- 6C Measurement: A review of the draft final chapter
- 6D Presentation: A review of responses to CFED-4

The IPSASB is still proposing to complete the Framework by June 2014.

Agenda Item 6A: Presentation on IASB Discussion Paper

Ian Macintosh gave an informative presentation in which he acknowledged the issues the IASB has faced in developing the discussion paper and the range of views that exist on certain issues. For example, he touched on the recent debate about the role of prudence in the Framework, and the fact that people hold differing views about OCI and recycling. Ian also emphasised that the intention is to tidy up the Framework and address a few issues rather than to comprehensively review the entire Framework.

One interesting point is that in the IASB DP, there are fewer references to "net cash inflows" than might have been expected. This is a result of Ian's view that a focus on "net cash inflows" does not always work in the private sector either, and that "economic benefits" is a more appropriate term.

Both the IPSASB and the IASB have had debates about whether a past event is an essential requirement for a liability to exist. Both have left the reference to past event in the definition. The IPSASB felt that requiring a past event was a useful way of focussing on liabilities, given the broad range of potential liabilities in the public sector.

The September 2013 IPSASB agenda papers (item 4) included comments by IPSASB staff on some of the differences between the IASB's proposals and the IPSASB's proposals. Although the definitions of elements are still being considered by the IPSASB, that staff paper is a good starting point if you are interested in differences between the proposals of the two Boards.

Some differences between the two (draft) frameworks are set out below.

IASB	IPSASB
The distinction between profit or loss and other comprehensive income (OCI) is based on current practice rather than a proposed definition of financial performance.	The IPSASB is attempting to articulate what it means by financial performance. The IPSASB has struggled to form a consensus view on whether its concept of financial performance requires that deferred revenue and expenses be separately defined as elements.
The IASB DP proposes that assets, liabilities, income, expenses, cash receipts, cash payments, contributions to equity, distributions of equity, and transfers between classes of equity be defined.	The IPSASB will define assets, liabilities, net assets/equity, revenue, expenses, contributions by owners and distributions to owners. The IPSASB has been debating whether to define deferred inflows and outflows as elements, but tentatively agreed not to do that at this meeting (see item 6B below). There are some differences between the proposed definitions of assets and liabilities, but these are not regarded as significant.
The IASB DP assumes that there will be a mixed-measurement model, although it proposes that the number of bases be limited. It doesn't provide a rationale for when different measurement bases might be appropriate.	The IPSASB is also proposing a mixed measurement model, but, it will also have a measurement objective which refers to financial capacity, operational capacity and cost of services. The measurement objective should assist in the selection of measurement bases at standards level.
The IASB DP refers to presentation on the face of the statements. Its overarching term is communication.	The IPSASB ED referred to presentation as being the overarching term, with information being displayed or disclosed. The IPSASB has agreed to have another look at the differences in terminology. See item 6D.

Agenda Item 6B: Conceptual Framework – Elements and Recognition

In this section of the meeting the IPSASB:

- (a) considered further the options for dealing with the issue of deferred flows and provided directions on key issues; and
- (b) provided feedback on an initial draft of Chapter 5 of the Framework.

In previous reports I have commented on the difficulties the IPSASB has faced in reaching any consensus on deferrals. There has been considerable agreement about what the IPSASB thinks the

statements should aim to do (such as 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) there has not been agreement about what this means for elements and statements. Given the IPSASB's commitment to finalising the Framework in 2014, the Board was very focused on giving staff directions on a way forward at this meeting.

With respect to deferrals, the four options presented in the issues paper were:

- A. defining deferred inflows and deferred outflows as elements in a manner that does not predetermine presentation of the elements;
- B. deriving the definitions of revenues and expenses from the asset and liability definitions;
- C. broadening the asset and liability definitions; and
- D. accepting that certain economic phenomena do not meet the definition of any element.

The thinking behind Option D is that there are some resources that provide economic benefits such as knowledge, human capital, and sovereign levying power that will not be captured as assets under the proposed conceptual framework, and that there are likely some obligations, for example responsibilities to perform and future obligations, that will not be captured as liabilities. As a result movements in such resources and obligations will also not be defined. The reality that these are not captured as an element in our conceptual framework should not preclude the IPSASB from requiring that information on these items be provided in the financial statements, if they are necessary to meet user needs.

The responses from the exposure draft have reinforced the Board view that users are looking for a reported surplus or deficit that shows the results of the application of the entity's operating and funding model over the reporting period, and shows a result that is useful in making decisions on (and holding decision-makers to account for) reducing or increasing the provision of resources to the entity, increasing or reducing the level of services provided by the entity, or reducing or increasing the gearing of the entity and thus the extent to which the current operating and funding model is at risk.

Such a result will not be provided by the measure of the increase or decrease in net assets. Rather it will be provided by comparing sustainable revenue flows with sustainable expense flows. The determination of what should be included in such a measure or statement will not be determined by defining the elements of the financial performance statement, but rather by determining the subset of flows that is considered to be sustainable.

After extensive debate and some informal voting, the Board agreed to proceed along the lines of Option D. However, the Board noted that there were some aspects of this option that needed to be further developed, including identifying different presentation options. Option D, and its variations, will be discussed in March. The Board also agreed to outline in the Basis for Conclusions the process it has gone through and its reasons for selecting this option.

Although there will still be some people that are not happy with this outcome, I consider that it is an honest approach, and does not preclude the possibility of further evolution of ideas/ evolution of financial statements.

Agenda Item 6C: Conceptual Framework – Measurement

My report on the September 2013 meeting noted key decisions made by the IPSASB regarding measurement. These were to:

- include a measurement objective;
- keep market value as a measurement basis;
- incorporate a discussion of fair value in the section on market value; and
- present fair value or deprival value as separate models.

The discussion at the meeting was mainly around detailed drafting. The Board will consider a revised chapter on measurement in March. It might be approved in March, or possibly in June.

Agenda Item 6D: Conceptual Framework – Presentation

This was the first detailed consideration of responses to CF-ED4, *Presentation in General Purpose Financial Reports*.

Two matters considered concerned differences between the IASB's proposals, as outlined in its DP, and the IPSASB's proposals in CF-ED4. The IPSASB's project has a broader focus which encompasses GPFR (rather than just GPFS) and financial and non-financial information. The IASB DP focuses on financial statements.

The IPSASB considered whether the project should continue to encompass general purpose financial reports. Although the draft section on presentation does not currently say much about presentation in reports other than GPFS, the concepts have been developed for application to a range of reports. Whilst noting that three responses were opposed to the IPSASB's broader scope the IPSASB agreed that its Framework should continue to address presentation concepts for GPFR.

The IASB and IPSASB projects also use terminology differently.

IASB (DP)	IPSASB (CF-ED4)
Presentation: disclosure on the face of an entity's primary financial statements Disclosure: process of providing useful information about the reporting entity to users	Presentation: the selection, location and organization of information that is displayed and disclosed in GPFRs. Presentation covers both display of information and disclosure of information. Displayed information communicates the key messages in a GPFR Disclosure: more detailed information on displayed information

Or, simplifying things a bit, and focusing on financial statements, the differences can be set out as follows:

	IASB	IPSASB
Overall term	Communication (although sometimes disclosure is used)	Presentation
Disclosure on the face of statements	Presentation	Display
Disclosure in the notes	Disclosure	Disclosure

The IPSASB received feedback from some constituents that considered the use of different terminology in the two frameworks would create an unnecessary difference. The IPSASB considered this and agreed to reconsider this matter. Staff are to come back with proposals in March.

Staff proposed that the responses be considered in further detail by staff and the TBG, with recommendations being brought back to the IPSASB in March 2014. The IPSASB agreed with this proposal.

Agenda Item 7: Strategy

See the covering report for the discussion of this item.

Agenda Item 8: GFS Alignment

In October 2012 the IPSASB issued a consultation paper on differences between IPSASs and Government Finance Reporting Guidelines and sought feedback on how it could reduce those differences. This is an issue for jurisdictions that would like to use the same information systems to generate GFS reports and their general purpose financial statements, including a number that are looking to adopt accrual accounting.

The Task Based Group has considered feedback on the consultation paper and proposed that the IPSASB:

- adopt a policy *Process for considering GFS Reporting Guidelines during the Development of IPSASs*. This document is similar in nature to the *Rules of the Road* policy which guided the IPSASB's convergence project;
- continue to identify differences between IPSASs and GFS Guidelines and address them, to the extent possible, through existing projects, and where appropriate, through the biennial improvements process; and
- seek feedback on the priority of some possible new projects to address differences between IPSASs and GFS Guidelines in the forthcoming work program consultation. The projects were:
 - to develop guidance on managing differences between IPSASs and GFS Reporting Guidelines, by way of a Study,
 - to revise IPSAS 18, *Segment Reporting*, and consider whether some of the disclosures required by IPSAS 22, *Disclosure of Information About the General Government Sector* should be incorporated in IPSAS 18; and
 - to undertake a major review of measurement requirements in IPSASs, following completion of the Framework.

The IPSASB:

- approved the policy paper;
- was open to the idea of considering minor amendments via an improvements project; and
- agreed to include the proposed projects as possible projects, along with the other possible projects, in the workplan. However, the IPSASB suggested that reviewing IPSAS 18 and IPSAS 22 should be presented as separate options, and the possible measurement project should be presented as a consequence of the completion of the Framework, rather than being specifically linked to alignment.