

MEETING HIGHLIGHTS

December 2013

Contact: Ross Smith (rosssmith@ipsasb.org)

This Meeting Highlights from the International Public Sector Accounting Standards Board (IPSASB) has been prepared for information purposes only. Except for approval of documents for public exposure and issuance of final Standards, Chapters or Guidelines, decisions reported are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IPSASB.

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

Government Business Enterprises

The IPSASB considered key issues identified by staff and reviewed a first draft of a Consultation Paper (CP), *Government Business Enterprises*. The draft CP:

- (i) Summarized the current definition of a Government Business Enterprise (GBE) in IPSAS 1, *Presentation of Financial Statements*, and further references to GBEs in IPSAS 1 and elsewhere in IPSASB's literature;
- (ii) Highlighted the approach in Government Finance Statistics to determining whether a unit is a public corporation or quasi-corporation;
- (iii) Briefly discussed the range of public sector controlled entities;
- (iv) Discussed the approach of the International Accounting Standards Board in communicating its view of the entities for which it develops International Financial Reporting Standards; and
- (v) Considered some of the main issues with the current definition of a GBE.

The IPSASB discussed two main approaches for dealing with the issue of GBEs that are explored in the draft CP. Under Approach 1 there would be no formal definition of GBEs in IPSASs. Instead the IPSASB would provide the characteristics of public sector entities that it considers when developing IPSASs. Under Approach 2 the IPSASB would continue to define GBEs, but would modify the definition. There are two options under this second approach. Under the first option the definition would be clarified; under the second option the definition would be narrowed. The first option would include the ability of an entity to contract in its own name as an indicator that an entity is a GBE, but would not retain it as a condition. The first option would also seek to provide further guidance that the terms:

- "To other entities" in the context of the condition in the current definition that "an entity sells goods and services, in the normal course of business, to other entities at a profit or full cost recovery" refers to entities outside the reporting entity;
- "Full cost recovery" means recovery of all fixed and variable costs in the reporting period; and

- “Not reliant on continuing government funding” might be clarified to mean that any such funding is a small proportion of an entity’s total income and would distinguish annual government funding from less frequent funding.

The second option would narrow the definition by including a requirement that GBEs have a profit-seeking rather than just a cost-recovery objective and exclude from the definition entities reliant on government guarantees, community service grants or other government funding in order to continue as going concerns.

The two options in Approach 2 are not mutually exclusive. The second option could therefore include some of the clarifications in the first option.

There was general support for the approach in the draft CP and for a Preliminary View that the IPSASB favors Approach 1. However, it was suggested that (i) the objective of the CP should be clearer and more strongly linked to the satisfaction of user needs, in particular whether standards focusing on investor needs, are appropriate for many public sector controlled entities that do not have a profit-seeking objective; and (ii) that Approach 1 could be supplemented by providing indicators of entities that might be expected to adopt accounting standards for profit-seeking entities rather than IPSASs. Some reservations were also expressed that option (b) in Approach 2 is impractical and that very few entities would meet such a revised definition. The IPSASB agreed to further consider this issue at the next meeting.

IPSASB staff member contact – João Fonseca: joaofonseca@ipsasb.org

Emissions Trading Schemes

The IPSASB considered a project brief on Emissions Trading Schemes (ETS). The first phase will be a joint project between the IASB and the IPSASB. The project will include both grantors and participants in ETS. The IPSASB directed that the project should be principles based and that it should include discussion of the auctioning of allowances and permits to emit as well as allocation at no cost. The IPSASB also directed that the project should include a consideration of guidance on ETS in the Government Finance Statistics Manual.

Subject to the project brief being amended to reflect these points the IPSASB approved the project brief.

IPSASB staff member contact – John Stanford: johnstanford@ipsasb.org

Conceptual Framework

Presentation by Vice-Chair of the International Accounting Standards Board

Ian Mackintosh, the Vice Chairman of the International Accounting Standards Board (IASB), made a presentation on the IASB’s Discussion Paper, *A Review of the Conceptual Framework for Financial Reporting*. The presentation commenced with an explanation of the rationale for the current project and an update on progress prior to the deactivation of the previous Framework project in 2010, including completion of chapters on the objective of financial reporting and the qualitative characteristics and the issuance of an Exposure Draft on the reporting entity.

The presentation covered a range of issues including:

- Status of the Framework;

- Problems with existing definitions of elements and recognition criteria;
- Possible revised definitions of an asset and a liability;
- Present obligations contingent on an entity's future actions;
- Approaches to recognition and derecognition;
- Measurement: objective of measurement, relevance of measures, measurement categories and selection of measurement bases for assets and liabilities;
- Approaches to profit or loss and other comprehensive income; and
- Liabilities and equity

After noting that the timetable projected issuance of an ED in the final quarter of 2014 and finalization of the Framework at the end of 2015, Ian considered some similarities and differences between the IASB's and IPSASB's evolving Frameworks, including:

- The focus of both IASB's and IPSASB's work on elements is on the financial statements;
- Different elements have been identified and defined by the IASB and the IPSASB;
- Both IASB and IPSASB have adopted a mixed measurement approach and broadly similar types of measurement categories;
- In the IASB Framework the selection of measurement bases is based on how the asset or liability contributes to the entity's future cash flows;
- In the IPSASB Framework the selection of measurement bases is based on the way that a measurement basis provides users of financial statements information about financial capacity, operational capacity, and the cost of services; and
- The focus of the IASB's work on presentation is on the financial statements while the IPSASB has adopted a broader focus on the general purpose financial reports and addresses both financial and non-financial information. Terminology therefore differs.

The presentation led to a constructive discussion which informed the IPSASB's later sessions on its Conceptual Framework (CF) project.

Elements and Recognition

Deferred Inflows and Deferred Outflows

The IPSASB considered a proposal by the Phase 2: Task Based Group (TBG) that the IPSASB adopt a hybrid approach that includes components of the four options identified by Staff in an Issues Paper. The hybrid approach would allow the reporting of inflows and outflows that do not affect assets and liabilities as defined in the Framework and the possibility of reporting of inflows and outflows that do not affect revenue and expenses. The main issue under this hybrid approach is whether to define such inflows and outflows as elements. On balance the TBG did not favor defining elements, because of the difficulties inherent in such an approach.

The IPSASB rejected this hybrid approach largely because of its complexity. Staff then listed the main advantages for each option claimed by its supporters and the main disadvantages put forward by those who opposed it, for each of the four options in the Issues Paper, as discussed below.

- A. Defining deferred inflows and deferred outflows as elements in a manner that does not predetermine presentation of the elements.

Option A differed from the approach in Exposure Draft, *Elements and Recognition in Financial Statements* (CF-ED2), because the definitions of deferred inflows and deferred outflows would not be restricted to non-exchange transactions and would not require that the flows should be related to a specified future period.

B. Deriving the definitions of revenues and expenses from the asset and liability definitions.

Under Option B deferred inflows and deferred outflows would not be defined as elements but treated as revenue and expenses. Option B would deal with deferred flows through a combination of display on the face of the financial statements and disclosure through notes. There were two variants of this option. In the first variant deferred flows would be taken directly to surplus/deficit, while in the second variant deferred flows would initially be taken to residual amount (net assets/equity) and then recycled in the period that time stipulations occur.

C. Broadening the asset and liability definitions.

Under Option C the definitions of an asset and a liability would be modified to include references to “certain deferred credits/debits” (or similar terminology) rather than defining additional elements. Staff noted that such an approach had been explored, but not fully developed, in the early 1970s in the United States. Staff noted a criticism, at that time, that the approach allowed virtually anything to meet the definition of an asset or a liability.

D. Accepting that certain economic phenomena do not meet the definition of any element.

As in Options B and C under Option D deferred inflows and deferred outflows would not be defined. Option D acknowledges that there are transactions and events that give rise to economic phenomena that do not meet the definition of any of the elements. Such economic phenomena may need to be recognized in financial statements in order to meet the objectives of financial reporting.

Following discussion Members tentatively decided to pursue Option D. Staff and the TBG were directed to further develop this Option for the next meeting, in particular focusing on the impact of the Option on the definitions of revenue and expenses and approaches to surplus/deficit.

Definitions of an Asset and a Resource

The IPSASB accepted a Staff View that the definitions of an asset and a liability should be modified, so that, although not changed substantively, they read more elegantly. The revised definitions are:

- An asset is a resource that an entity presently controls as result of a past event; and
- A liability is a present obligation of an entity for an outflow of resources that results from a past event.

Definitions of Ownership Distributions and Ownership Contributions

The IPSASB also agreed with the staff view that the phrase “in their capacity as owners” should be inserted into the definition of “ownership distributions” and also, directed that it should be included in the definition of “ownership contributions”. The revised definitions of these two elements are:

- Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners that return or reduce an interest in the net assets of the entity; and
- Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners that establish or increase an interest in the net assets of the entity.

Measurement

The IPSASB considered a number of issues, as discussed in the following paragraphs below.

Definition of Historical Cost

The IPSASB agreed that historical cost should be defined for both an asset and a liability but considered that the staff definition insufficiently took into account non-exchange transactions. The IPSASB directed that the tentative definition should be:

“The consideration given to acquire an asset, which might be the cash or cash equivalents or the value of the other consideration given at the time of its acquisition or development.”

The definition for a liability would mirror this. There will also be a short paragraph on the cost model.

Symbolic Values

Some strong opposition was expressed about the non-inclusion of symbolic values as a measurement basis to accommodate certain items where it had not been possible to obtain a valuation or where an accounting policy had been adopted that such items should not be valued. However, the IPSASB reaffirmed the view that symbolic values do not constitute a measurement basis because they do not meet the measurement objective. Staff was directed to ensure that the rationale for including symbolic values as a measurement basis is adequately stated in the Basis for Conclusions as well as the rationale for rejecting such a view.

Relocation of Material from Section on Fair Value Model in CF–ED3

At the September meeting the IPSASB had directed that the section on the Fair Value and Deprival Value models should be deleted. It was agreed that some of the material from the section of CF–ED3 on the Fair Value model should be relocated to the sub-section on Market Value. However, material on the assumptions that estimation techniques include was too low level and should be deleted.

Valuation of Assets on Standalone Basis or on the Basis that they will be used in Conjunction with other Assets/Liabilities (Unit of Account)

It was agreed that there should be a short paragraph on the unit of account, but that this should be termed the *Level of Aggregation and Disaggregation* and that there should be a linkage to recognition.

Other Cash-Flow-Based Measurements

The IPSASB agreed not to add a category: Other Cash-Flow-Based Measurements on the basis that such measurements are addressed adequately in other measurement bases.

The IPSASB then carried out a page-by-page review and identified a number of editorial and minor changes. A further version of the draft final chapter will be considered at the March 2014 meeting.

Presentation in General Purpose Financial Reports

The IPSASB carried out an in-depth review of responses on the Exposure Draft, *Presentation in General Purpose Financial Reports* (CF–ED4), after a high level summary was provided in September. 33 responses were received with the majority of respondents supporting the concepts in CF–ED4. Staff identified three fundamental issues raised by respondents. The IPSASB confirmed that presentation concepts should continue to: (a) focus widely on both the financial statements and information additional to the financial statements, (b) remain at a high, general level, and (c) be public sector focused. On point (c) the IPSASB noted that the proposed presentation terminology was the most controversial issue for respondents. The IPSASB directed staff and the TBG to consider whether there was scope to align more closely with the IASB’s terminology in its Discussion Paper. Staff will also develop recommendations on respondents’ detailed specific comments.

The next step is for a draft chapter to be developed for the IPSASB's consideration at its March 2014 meeting.

IPSASB staff member contact – John Stanford: johnstanford@ipsasb.org

Public Sector Specific Financial Instruments

The IPSASB considered a project brief on accounting for public sector specific financial instruments. For work planning purposes the project is intended to address public sector specific financial instruments issues. However, as noted in the project brief, the issues identified do not meet the current definitions of a financial instrument, financial asset and/or financial liability in IPSAS 28, *Financial Statements: Presentation*.

The IPSASB considered the scope of the project. It was agreed to address the following issues:

- Monetary Gold
- Currency and coin in circulation
- IMF Special Drawing Rights (SDRs) and reserve position in the IMF
- Statutory receivables
- Statutory payables

The IPSASB specifically considered whether to include concessionary loans and financial guarantees issued in non-exchange transactions in the scope of the project. It was agreed by the IPSASB that these issues should not be in the scope, because there are requirements and guidance in IPSAS 28–30, and the implementation date for those standards was January 1, 2013. Further, it was agreed that this project would remain separate from any work related to maintaining alignment with International Financial Reporting Standards in, IPSAS 28–30.

The IPSASB noted that it was difficult to determine if the scope of issues was exhaustive at this time and therefore decided to proceed with an initial research phase of the project. This initial phase is anticipated to be completed by the end of 2014 and culminate with the issuance of a consultation paper and a revised project brief.

The IPSASB considered a proposal to make the current Task Based Group (TBG) a Task Force (TF) based on the complexity of some of the issues identified and the lack of accounting literature available. The IPSASB agreed with the staff proposal to attempt to add 1 to 2 members outside of the IPSASB to the TBG to form a TF. These members would be expected to have specific experience related to central bank accounting and/or accounting for IMF SDRs/reserve position in the IMF.

The IPSASB approved the project brief, subject to minor modification.

IPSASB staff member contact – Ross Smith: rosssmith@ipsasb.org

Reporting Service Performance Information

The IPSASB considered two issues related to a draft Exposure Draft (ED) of the Recommended Practice Guide (RPG), *Reporting Service Performance Information* and then did a page-by-page review of the draft RPG. With respect to the first issue—revisions to the RPG's definitions—the IPSASB identified revisions to the definitions of “effectiveness” and “service performance objective” and to the description of

“services”. The second issue was whether the proposed additional disclosures for when service performance information is in a separate report from the financial statements were appropriate and sufficient. The IPSASB approved the proposed disclosures and identified further disclosures that would be necessary in that situation.

The draft ED was revised during the meeting, reviewed by IPSASB members a second time, and approved. ED 54, *RPG Reporting Service Performance Information* will be issued with comments requested by 31 May 2014.

IPSASB staff member contact – Gwenda Jensen: gwendajensen@ipsasb.org

IPSASs and GFS Reporting Guidelines

The IPSASB received a report from the Alignment Task Force on progress made since the IPSASB’s review of responses to the Consultation Paper, *IPSASs and Government Finance Statistics Reporting Guidelines*. The IPSASB then:

- (a) Approved a policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*;
- (b) Decided that new projects with scope to reduce unnecessary differences between IPSASs and GFS reporting guidelines should be included in the list of projects in the 2014 work plan consultation;
- (c) Noted that where the IPSASB’s existing projects provide scope for alignment this should be considered by the staff involved; and
- (d) Decided that development of guidance on managing differences will need to be considered in light of the IPSASB’s strategic deliberations with respect to its involvement with implementation guidance.

Next steps are for the policy paper to be finalized and issued, and a method to track progress on addressing differences to be developed, as envisaged by the policy paper.

IPSASB staff member contact – Gwenda Jensen: gwendajensen@ipsasb.org

Strategy

The IPSASB discussed a draft document that is intended to be issued for public consultation in March 2014. The document will outline the IPSASB’s preliminary views on its strategic objectives for the period 2015 and forward. In addition, the IPSASB will see the views of stakeholders on the projects that should be prioritized in its work program for the period 2015–2019. It is noted that the public sector conceptual framework project will be completed during 2014 as will a number of other existing commitments. The IPSASB therefore believes it is an appropriate time to undertake a public consultation on its strategy and work program for the period subsequent to 2014.

The IPSASB generally agrees that its strategic objectives should be positioned in the context of public finance management and the role that accrual accounting has as a foundation to strong public finance management. The IPSASB noted the need to word strategic objectives in terms of outputs and outcomes and the TBG will consider revised wording before bringing this back to the IPSASB at its March meeting. In addition, the draft will include a discussion of the IPSASB’s operational processes, including what is still needed, in order to link the strategy with the work program. The consultation on the work program will

include a list of potential projects, with descriptions, to assist constituents in providing feedback on which projects they think should be prioritized.

The IPSASB intends to further discuss this draft consultation paper at the March 2014 meeting with the view to approving it at that time and issuing it shortly afterwards with a response date of July 31, 2014. The goal is to have a final strategy and work program for approval at the December 2014 IPSASB meeting.

IPSASB staff member contact – Stephenie Fox: stepheniefox@ipsasb.org

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 or early in 2014 for comment.

IPSASB staff member contact – Stephenie Fox: stepheniefox@ipsasb.org

Next Meeting

The next IPSASB meeting will be held in Toronto, Canada on March 11–14, 2014.