

25 March 2014

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 – March 2014**

### **Introduction**

The first IPSASB meeting for 2014 was held in Toronto, on 11-14 March. This report provides an overview of the meeting and strategic matters. The appendix records progress on the conceptual framework and other technical topics.

The annual OECD symposium was held in the week preceding the IPSASB meeting. My report on that meeting is available on request from me or Joanne Scott<sup>1</sup>.

### **Membership and Staffing**

There are four new Board members this year. They are:

- Leonardo Silveira do Nascimento (Brazil);
- Stuart Barr (Canada);
- Aracelly Mendez (Panama); and
- Abdullah Yusuf (Pakistan).

The Chair noted that he is pleased that the Board once more has representation from Latin America, especially since many countries in Latin America have projects to adopt IPSASs. All the new members attended, the only apology being from Tim Youngberry, who was prevented from travel for medical reasons.

The IPSASB is now fully staffed. Paul Mason is the most recent staff member. He previously worked for the Chartered Institute of Public Finance and Accountability (CIPFA), and assisted the Board on the Service Concessions Arrangements – Grantor project

### **Oversight and Governance**

The consultation paper entitled *Future Governance of the International Public Sector Accounting Standards Board (IPSASB)* was issued in January with comments due by 30 April 2014. The consultation paper was issued by the IPSASB Governance Review Group which is made up of three international intergovernmental bodies, the IMF, OECD and the World Bank.

The IPSASB already has a number of processes in place which support good governance (for example, due process, work plan consultation and nominations). However, without an oversight body it has been lacking an independent opinion on its governance. A number of countries have cited concern over lack of formal oversight, as a reason for not adopting IPSASs. Most people agree that the IPSASB needs some form of monitoring and oversight. There have been problems though, in

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identifying a body that is willing to take on this role and questions about how such arrangements would be funded. There hasn't been a line of candidates beating down the door to take on this role.

In various reviews on the structure and operations of the IASB (and formerly the IASC), the scope of the IASB's activities has been discussed. Most recently this occurred in 2011 as part of the Trustees Strategy Review. At that time the Trustees concluded the focus of the Foundation and the IASB should remain on for-profit entities. The Monitoring Group, which has ultimate oversight responsibility for three IFAC standard setting boards, has also considered whether to extend the Public Interest Oversight Board's role to include oversight of the IPSASB. Following public consultation, in February 2013 the Monitoring Group decided that its composition, as well as that of the PIOB, was not best suited for IPSASB governance. In both the case of the Trustees and the Monitoring Group, key factors influencing the decisions were the skills, time and money that would be required and the strain that an expansion of activities would put on the effectiveness of these bodies in carrying out their existing activities.

The consultation paper seeks feedback on three options:

- (a) extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB;
- (b) establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC; and
- (c) re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies.

The IPSASB's consideration of this topic commenced with a presentation from Jón Blöndal from the OECD on the matters outlined in the Consultation Paper. A copy of his presentation is available at: <http://www.slideshare.net/OECD-GOV/session6brianquinnwbjonblondaloeecd#>

The IPSASB discussed both its response and the likely response of others to the proposals in camera. The IPSASB will prepare a submission on the proposals, and has been encouraged to do so by the Review Group. The IPSASB will contend that Option 2 is the only feasible option, and will focus on implementation issues. The IPSASB understands that IFAC will be making a separate submission through a separate IFAC Board process.

### **European Public Sector Accounting Standards**

Anabela Nabais Rodrigues from Eurostat, provided the Board with an update on European Public Sector Accounting Standards (EPSAS).

The European Commission is intending to issue a communication on accrual accounting by mid 2014. This Communication is being developed by an internal taskforce and will launch the project. The Communication could be regarded as a roadmap to implementation which will set out key principles and structures.

All EU activities require a legislative basis. The Commission is proposing using article 338 of the European Treaty Union (which provides for the provision of statistical information by member states) to provide the basis for the European Commission and Parliament to adopt an EPSAS Framework Regulation. There is however some doubt as to whether an accounting framework can be developed from a requirement to provide statistical information. If that proposal fails, adoption of EPSAS would require unanimous agreement by EU member states, the prospect of which is so low as to be considered practically impossible.

On behalf of the Commission, Eurostat has been engaged in an ongoing process of consultation with EU member states. The first wave of consultation has been on governance principles and structures. Little agreement has emerged from that consultation.

Eurostat also has a task-force considering issues with the standards themselves. The first meeting brought to the fore the wide range of views on IPSASs and the extent of modification that might be regarded as desirable in the EU context. From this, a proposal is starting to emerge that rather than a European wide set of standards, all that may be possible is a European wide set of high level principles, with member states then implementing their own detailed rules and standards.

Eurostat are still working to a general timeline of developing specific EPSASs over the period 2016 to 2020. In my view, such a goal and such a timetable is becoming increasingly unlikely.

**Strategy**

The Board approved a consultation paper on the IPSASB’s strategy for 2015 forward and the work plan for 2015-2019. The IPSASB has reconsidered its strategic objective. Subject to any final editing, the objective that will be set out in the Consultation Paper is:

- Strengthening public financial management globally through increasing adoption of accrual-based IPSASs by:
  - (a) developing high-quality financial reporting standards;
  - (b) developing other publications for the public sector; and
  - (b) raising awareness of the IPSASs and the benefits of their adoption.

The consultation document sets out a fairly large number of possible projects that the IPSASB could tackle in the post-Conceptual Framework period. Responses to this paper will be key to the determination of the IPSASB’s medium term programme.

**Meeting Overview**

Technical Items	Decisions/ Feedback
2 Governance	Discussed response to Review Group Consultation Paper
3 Strategy and Workplan	Approved Consultation Paper
4 Conceptual Framework	Noted timetable
4A CF– Elements and Recognition	Discussed issues and reviewed final chapter
4B CF-Measurement	Discussed issues and reviewed final chapter
4C Presentation	Discussed issues and reviewed final chapter
5 Government Business Enterprises	Discussed draft Consultation Paper (not approved)
6 Public Sector Financial Instruments	Considered research
7 Social benefits	Provided direction on scope of project and development of Consultation Paper

The agenda papers are available at <http://www.ifac.org/public-sector/meetings>. More detail on the conceptual framework project and other projects is set out in the Appendix to this report.

**Next Meeting**

The next meeting will be held on 24-27 June in Toronto.

## APPENDIX

### PROGRESS ON CONCEPTUAL FRAMEWORK AND OTHER TECHNICAL MATTERS

#### Agenda Item 4: Conceptual Framework

Progress continues to be steady. As noted by the Chair, Andreas Bergmann, when he gave a presentation in New Zealand recently, the Framework is expected to be finished by the end of 2014. In fact it may be substantially complete by June, but the Board intends to spend time in September considering the Framework as a whole.

#### Agenda Item 4A: Elements and Recognition

You may recall that at the last meeting the IPSASB discussed a number of options in relation to deferred inflows and outflows. Deferred inflows and outflows had been proposed as separate elements in CF ED2, but the majority of constituents did not support this proposal. In December 2013 the IPSASB agreed to proceed along the lines of defining six elements: assets, liabilities, revenues, expenses, ownership contributions and ownership distributions. Deferred inflows and outflows would not be defined as elements. However, the Framework would acknowledge that (i) there are transactions and events that give rise to economic phenomena that do not meet the definition of any of the elements and (ii) such economic phenomena may need to be reported in financial statements in order to meet the objectives of financial reporting. The IPSASB noted that further work would be required to clarify this option and give effect to it in the Framework.

At this meeting, the IPSASB was asked to provide feedback on the draft chapter on elements and recognition, and more specifically on whether the Board agrees with how its direction has been proposed to be implemented.

The tricky aspect of this approach has been deciding how to deal with the fact that economic phenomena that are not defined elements may be recognised in the financial statements. The draft chapter considered at the meeting attempted to address this issue by specific mention of “other resources” and “other obligations” arising from other economic phenomena.

This in essence changes the accounting equation from “Assets less Liabilities equals Net Assets” to “Assets plus other resources *less* Liabilities plus other obligations *equals* Net financial position”, with the definitions of revenue and expense referring to movement in net financial position. This approach was broadly agreed as a basis for moving forward.

Other decisions included:

- (a) Capital maintenance: Not to include a discussion of capital maintenance in this Framework, but to signal, in the Basis for Conclusions, a longer term intention to consider capital maintenance from a public sector perspective.
- (b) Financial performance: Not to propose models of financial performance in the ED but to provide a discussion in the Basis of Conclusions. This was in response to a proposal that had been set out in the agenda papers.
- (c) Further development: Agreed to acknowledge that there are some areas where the Board proposes to do further work on measurement following the completion of the Framework.

In addition to making decisions on content the Board agreed to restructure the chapter on elements and recognition.

#### **Agenda Item 4B: Measurement**

The chapter on measurement is well advanced and at this meeting staff were seeking to clarify matters rather than make major changes.

Points discussed included:

- (a) The measurement objective. The wording of the measurement objective was confirmed;
- (b) The definitions of historical cost for assets and liabilities were confirmed, and it was agreed to refer to the cost model as the historic cost model. As part of this discussion, the Board noted that the historic cost of an asset donated in a non-exchange transaction would be zero, with the amount subsequently used in the cost model being a deemed cost;
- (c) Whether symbolic values should be permitted as a measurement basis. Consistent with its previous discussions the Board agreed that they should not. However, the Basis of Conclusions will more clearly reflect the view of those who feel that the recognition of certain cultural and heritage assets at symbolic values has more information value than merely disclosing information;
- (d) The valuation of land under replacement cost. The issue here was whether the Board should get into detailed issues such as highest and best use. The Board agreed that this was a standards level issue.
- (e) The need to communicate clearly to constituents that the IPSASB has spent a lot of time thinking about public sector specific issues and that the discussion and assessment of measurement bases reflect the public sector context. This will be done partly through the Basis for Conclusions but members also talked about the desirability of engaging with constituents via public presentations to ensure that people understand the Measurement section of the Framework and the thinking behind it.

#### **Agenda Item 4C: Presentation**

The IPSASB is still working through the process of considering and responding to respondents' comments. At this meeting there were three key issues.

The first issue was whether to provide guidance on the selection of the language in which GPFs are issued, and if so, where that guidance should be provided. This issue arises when a jurisdiction has more than one official language, or where an entity considers that it is appropriate to issue a report in a language other than an official language (for example, a non-English speaking country issuing a report in English). The IPSASB agreed to provide guidance on this matter but it will be much briefer than the guidance proposed in the agenda papers. A single paragraph on this issue will be included in the Framework.

The IPSASB then considered what terminology to use, having regard to the desirability of using terminology that is commonly understood and avoiding unnecessary differences between IPSASB and (likely) IASB terminology. The IPSASB's ED used the terms presentation, display and disclosure. The IPSASB decided to continue with the terminology that it had developed and sought feedback on in CF-ED4. This decision was partly influenced by the view that the IASB hasn't considered presentation concepts in the way that the IPSASB has, and also a concern that some IASB terms have two meanings (for example, some terms could mean both the actual location of information and the process of deciding what information to present or where to present it).

Finally the IPSASB considered whether to restructure the material. A few respondents had put forward suggestions to streamline the structure. The IPSASB agreed to consider this once it has seen

the revised text, and having regard to the fact that the revised text would already be shorter than that in the ED, following the deletions that were agreed at the meeting.

#### **Agenda Item 5: Government Business Enterprises**

The IPSASB discussed a draft consultation paper which will seek views on how to express its approach to establishing the scope of standards. The issue is that IPSASs currently say that (i) they apply only to entities other than GBEs and (ii) GBEs apply IFRSs. There are a number of problems with this approach.

- (a) It is not strictly true as regulators and not the IPSASB determine which entities apply which standards. GBEs may apply IFRSs but they may also apply national standards.
- (b) The definition of GBEs is not consistently applied.

The IPSASB agreed to seek views on which of two alternative approaches constituents prefer.

- (a) Option 1: Describe the characteristics of public sector entities which the IPSASB considers when developing IPSASs. Do not define GBEs.
- (b) Option 2: Continue to define GBEs. Constituents' views will be sought on whether the IPSASB should clarify the existing definition and/or narrow that definition.

Ways in which these options could be more closely aligned with GFS classifications and terminology will also be outlined in the consultation paper.

#### **Agenda Item 6: Public Sector Financial Instruments**

The IPSASB noted the results of research carried out to identify the accounting policies applied by central banks in respect of various issues such as currency issued, monetary gold, IMF special drawing rights and IMF subscriptions. Statutory receivables and securitisation will be considered in June.

One of the findings was that few central banks currently apply IPSASs (most apply IFRSs or IFRSs plus some modifications). The IPSASB therefore considered whether the IPSASB was the most appropriate body to be addressing these issues. It agreed that it should address some of these issues as (i) the IPSASB develops requirements and guidance on the transactions and events of governments and (ii) some of these items are commonly reported and are significant items in whole of government financial statements. The IPSASB agreed that staff should conduct further research into the rights and obligations associated with these items, how they are accounted for by governments and the impact of these items on the financial statements of governments. It will then be in a better position to decide which issues it will address. The IPSASB noted the desirability of engaging central banks in this process. At this stage there have been no decisions about what form any guidance should take.

#### **Agenda Item 7: Social Benefits**

This project is recommencing after a fairly lengthy hiatus. The IPSASB is hoping that its consideration of Framework issues will assist it in making progress on this difficult topic. In addition, the fact that the IPSASB now has guidance on reporting on long term fiscal sustainability might help in determining the boundaries of this project.

At this meeting staff was seeking direction on the nature of the work that the IPSASB would like to be carried out in the research phase. Obviously this will involve a review of current guidance on social benefits in various jurisdictions and by supra-national bodies.

Staff sought feedback on whether the following issues should be addressed in a consultation paper:

- 1 What is the appropriate scope of the project?
- 2 Should the theoretical framework be provided by IPSAS 19 for all social benefits or are there alternative frameworks (such as the grand executory contracts approach and the insurance approach)?
- 3 What are the appropriate disclosure requirements for social benefits?
- 4 When do present obligations arise for the different categories of social benefits?
- 5 Where a program requires revalidation of the entitlement to benefits, is revalidation an attribute that should be taken into account in the measurement of the liability or a recognition criterion?
- 6 (a) In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?  
(b) What is the appropriate accounting treatment for programs that operate to provide both contributory benefits (known as social insurance programs in statistical accounting) and non-contributory benefits (known as social assistance programs in statistical accounting)?

The Board was generally comfortable with the approach that staff were proposing to take in respect of a number of these issues.

The key issue was the scope of the project, and members held differing views about this. Previously the Board had agreed to exclude collective goods and services from the scope of the project. It had also agreed not to try and address the treatment of all non-exchange expenses in the project. The focus at this meeting was whether the project should cover cash transfers and individual goods and services, or cash transfers only. Members had a range of views on this issue. There was general agreement that the Board eventually needs to address both of these issues, but a number of members felt that past experience indicated that the Board was likely to make better progress if it focussed first on cash transfers and then on individual goods and services. The Board did acknowledge concerns about consistency for both types of obligations and the fact that some obligations will have attributes of both categories. The direction to staff was to set out the Board's two phased approach in the consultation paper and seek comment on that.

The consultation paper will also outline various conceptual approaches that have been identified. These include an IPSAS 19 approach looking to report net financial position and focussing on when social benefits become a liability, an approach to report on the status of the grand executory (or social) contract between governments and citizens and a (social) insurance approach. Members noted that each approach reflects a different objective with IPSAS 19 focusing on identifying present obligations and the insurance approach focussing on the status of the obligations.