

MEETING HIGHLIGHTS

March 2014

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

Conceptual Framework

Elements and Recognition

Following a recap on the development of how the IPSASB's approach to deferred inflows and deferred outflows had evolved, starting with the development of the 2010 Consultation Paper, *Elements and Recognition in Financial Statements*, the IPSASB considered a number of issues related to the main decision at the December 2013 meeting. At that meeting the IPSASB decided to adopt an approach that would not define deferred inflows and deferred outflows as elements, but would acknowledge that there are (i) transactions and events that give rise to economic phenomena that do not meet the definition of any of the elements; and that (ii) such economic phenomena may need to be recognized in the financial statements in order to meet the objectives of financial reporting.

Terminology

The IPSASB agreed that "other economic phenomena" is an overarching term that will be used in section 1 of the Elements chapter. The terms "other resources" and "other obligations" will be used subsequently in the chapter.

Definitions of an Asset and a Liability

The IPSASB confirmed that the definitions of an asset and a liability are those agreed at the December 2013 meeting:

- An asset is a resource that an entity presently controls as a 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.

Net Assets and Net Financial Position

The definitions of an asset and a liability do not preclude reporting other resources and other obligations in the statement of financial position. IPSASs will provide details of circumstances where it is required or permitted to recognize transactions and events as other resources and other obligations. It will not be permitted to recognize economic phenomena as other resources or other obligations unless specified in an IPSAS.

Consequently, the statement of financial position may report a net position that is not the difference between assets and liabilities (net assets). This amount is the net financial position. The net financial position is the aggregate of an entity's net assets and other resources and other obligations. The Framework will describe net financial position, but will not provide a detailed explanation, because the interpretation of net financial position and its relationship to net assets will be determined by reference to the nature of the other resources and other obligations recognized in the financial statements.

Capital maintenance

The IPSASB considered the financial and physical concepts of capital maintenance. The IPSASB considered that neither is directly applicable to the public sector, although the physical concept of capital maintenance might be the starting point to develop a concept of capital maintenance appropriate for the public sector. The IPSASB agreed with the internal Task Based Group recommendation not to insert capital maintenance concepts into the Framework. The Basis for Conclusions will indicate that IPSASB may carry out work on developing a concept of capital maintenance that reflects the service delivery objectives of most public sector entities in the future.

Definitions of revenue and expense

The IPSASB considered two approaches to revising the definitions of revenue and expense following the decision not to define deferred inflows and deferred outflows as elements:

- (a) Define revenue and expense by reference to movements in net financial position; or
- (b) Define revenue and expense by reference to movements in net assets with an acknowledgement that the definitions of revenue and expense neither preclude nor require other items to be reported in surplus or deficit.

The IPSASB considered that the first approach is more transparent. IPSASB directed that Staff further develop the definitions of revenue and expense that were included in the draft final chapter based on this approach.

Financial performance

The IPSASB considered an explanation of financial performance linked to an entity's operating and funding model. Reservations were expressed that this related financial performance to an entity's business model and that the notion of such a model in the public sector is underdeveloped. It was therefore agreed that there would simply be a statement that "all items that met the definition of revenue and expenses and the recognition criteria set out in the chapter on recognition are reported on the statement of financial performance. The difference between revenue and expenses is the entity's surplus or deficit for the period."

Recognition of other resources and other obligations

The IPSASB concluded that consideration of measurement uncertainty is relevant for other resources and other obligations.

State of development of conceptual thinking

The IPSASB acknowledged the concepts applicable to financial reporting and the notions of financial performance and financial position to be reflected in the financial statements will evolve over time. The Basis for Conclusion will include such an acknowledgment and note that, as a consequence, the elements may be developed further in the future.

Page-by-page review

The IPSASB carried out a page-by-page review of the draft chapters. The directions of the IPSASB included that:

- In the context of a present obligation in the definition of a liability the term “non-legally binding obligation” should be used rather than “other binding obligation”;
- The section on recognition will be converted into a separate chapter with sub-sections on uncertainty of the existence of an element, measurement uncertainty and derecognition; and
- The remaining sections of the chapter will be restructured in the sequence:
 - Assets
 - Liabilities
 - Other Resources and Other Obligations
 - Net Financial Position
 - Revenue and Expense
 - Ownership Contributions and Ownership Distributions

The IPSASB will review a further version of the draft final chapter at the June 2014 meeting.

Measurement

The IPSASB considered a number of issues including:

- Measurement objective and descriptions of financial capacity and operational capacity;
- Definitions of historical cost for an asset and a liability;
- Symbolic values; and
- Valuation of land under replacement cost.

Measurement objective and descriptions of financial capacity and operational capacity

The IPSASB considered a Staff view that the wording of the measurement objective should be amended, because of possible confusion between the phrase “most fairly reflect” and the qualitative characteristic of “faithful representation”. The IPSASB was not persuaded that such confusion would arise and reaffirmed that the measurement objective is:

To select those measurement bases that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

The IPSASB accepted a Staff proposal to modify the descriptions of operational capacity and financial capacity, in particular that the description of financial capacity should not refer to “operational objectives”. The revised draft descriptions are:

Financial capacity: The capacity of the entity to continue to fund its activities.

Operational capacity: The capacity of the entity to support the provision of services in future periods through physical and other resources.

Definitions of historical cost for an asset and a liability

The IPSASB reviewed the draft definitions of historical cost for both an asset and a liability and directed that these be tightened:

Asset: The consideration given to acquire an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Liability: The consideration received to assume an obligation, which is the cash or cash equivalents or the value of the other consideration received at the time the liability is incurred.

The IPSASB noted that, in the context of liabilities, in a large number of public sector circumstances there is no consideration. In such circumstances historical cost will not be the suitable measurement basis and cost of fulfillment will be probably be appropriate. The IPSASB therefore directed that Staff review the structure of the section on liabilities to ensure that cost of fulfillment is given sufficient prominence.

Symbolic values

The IPSASB redeliberated symbolic values, which in some jurisdictions are used to recognize certain assets where it is impossible to obtain a valuation. A view was expressed that not permitting the use of symbolic values on “an exception basis” in the Conceptual Framework is to fail to address a public sector specific issue.

The IPSASB reaffirmed its view that symbolic valuation should not be included as a measurement basis because it does not meet the measurement objective. Staff was directed to (i) review the explanation of the arguments for including symbolic values as a measurement basis in the Basis for Conclusions and ensure that this reflected the views of those who favor the use of symbolic values; and (ii) ensure that the Basis for Conclusions discusses recognition and disclosure.

Valuation of land under replacement cost

Staff explained that under the replacement cost basis there are issues as to how land will be valued. Staff noted the examples of (i) residential land subsequently rezoned for use as a cemetery and (ii) a school with surplus capacity in a residential area. The issue is whether the land is valued as residential land or at a “discounted value” that reflects the existing use of the land. The IPSASB acknowledged the significance of these issues, but considered that they are standards-level in character. The IPSASB’s *Consultation on Work Program 2015-2019* will include a potential project on Measurement and ask for the views of constituents.

Project plan and timetable

Following the session on Elements and Recognition, Measurement and Presentation the IPSASB considered the viability of the project plan and timetable, which projected final approval of the chapters from phases 2–4 in June 2014. The IPSASB accepted that more time is necessary to develop and restructure the chapters on Elements and Recognition and therefore agreed to put back final approval until September 2014. The IPSASB considered that it may be feasible to approve in principle the chapters on Measurement and Presentation at the June 2014 meeting and that this will be considered at that meeting.

Presentation in General Purpose Financial Reports

The IPSASB considered three issues related to development of the chapter, *Presentation in General Purpose Financial Reports*, and directed staff to:

- (a) Include brief text, based on the draft submitted to the meeting, to address the language in which GPFRs are issued;
- (b) Continue with the approach to terminology exposed in CF–ED4, *Presentation in General Purpose Financial Reports*; and
- (c) Further consider the proposed revised structure with a view to circulating a restructuring proposal to the IPSASB for an inter-meeting review.

Members then carried out a page-by-page review of the draft chapter.

The next step is for the draft chapter to be revised, and then submitted to the IPSASB June 2014 meeting with a view to approval.

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Strategy

The IPSASB discussed a draft Consultation Paper developed to seek feedback from its stakeholders on its proposed strategy for the period from 2015 forward. Related to this, the IPSASB is also seeking feedback on the projects it should prioritize over the period 2015–2019.

The IPSASB’s tentative conclusion on its strategic objective is:

Strengthening public financial management and knowledge through increasing global adoption of accrual-based IPSASs by:

- (a) *Developing high-quality financial reporting standards;*
- (b) *Developing other publications for the public sector; and*
- (c) *Raising awareness of the IPSASs and the benefits of their adoption.*

The IPSASB’s view is that implementing high-quality accrual accounting standards improves the quality of financial information for stakeholders and with it the quality of financial management. To that point, adopting accrual IPSASs will strengthen public financial management globally.

To meet this strategic objective the IPSASB has identified two outcomes it seeks to achieve:

- (a) Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand; and
- (b) Increased awareness of IPSASs and their public finance management benefits in order to influence their adoption.

In order to achieve these outcomes the IPSASB is proposing to focus on delivering the following outputs:

- (c) Developing high-quality financial reporting standards and other publications for the public sector; and
- (d) Undertaking presentations, speeches and other outreach activities in order to engage with stakeholders.

During 2014 the IPSASB’s committed projects will be progressed, many of them even completed— notably the public sector conceptual framework. This means that from 2015–2019 the IPSASB’s resources can be directed toward new projects and the Consultation Paper seeks the views of

stakeholders on potential priorities. The IPSASB is also interested in the views of constituents on the existing Cash Basis IPSAS and what additional work, if any, should be undertaken.

The proposed strategy will be issued by the end of March 2014. Responses are requested by July 31, 2014. The IPSASB intends to discuss the responses in September and plans to approve its strategy as well as a new work program in December 2014.

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Government Business Enterprises

The IPSASB considered key issues identified by staff and reviewed a second draft of a Consultation Paper, *Government Business Enterprises*. The main changes from the first draft of the Consultation Paper were the addition of:

- A third approach which aims to enhance convergence between IPSASs and Government Finance Statistics (GFS) guidelines;
- Indicators for borderline cases in Approach 1 in which the IPSASB would not retain the definition of a Government Business Enterprise (GBE), but would provide the high level characteristics of entities for which the IPSASB is developing standards; and
- Replacement of the term "non-market basis" with the term "non-commercial basis" in Approach 1.

The third approach would not retain the definition of a GBE. This additional approach would seek to promote convergence with GFS by (i) introducing a definition of "a public corporation"; (ii) supplementing this definition with the characteristics of public sector entities for which the IPSASB is developing IPSASs that approximate those in the GFS description of the General Government Sector to the maximum extent possible; and (iii) providing guidance for borderline cases drawn from GFS. The descriptions of the characteristics of public sector entities would be complemented by material from the Conceptual Framework.

There was general support for this third approach to be included in the Consultation Paper, but as a second option in Approach 1 rather than as a totally separate approach.

In order to provide guidance on borderline cases, four indicators had been included in Approach 1 to facilitate an assessment of whether the entity is a public sector entity for which the IPSASB is developing IPSASs. These are:

- (a) The entity is pursuing an economic or social policy stated by the government;
- (b) The entity follows orders/instructions from the government to pursue its own business;
- (c) The entity sells goods and services, in the normal course of business, without a profit; and
- (d) Is reliant on continuing government funding or guarantees to be a going concern (other than purchases of outputs at arm's length).

The IPSASB directed that further explanation of the indicators is necessary. The IPSASB also directed that Staff consider and make explicit the implications of all the options in Approach 1 and Approach 2 on alignment between IPSASs and GFS. In addition the IPSASB directed that the Consultation Paper should be restructured so that the summary of the range of controlled entities in the public sector precedes discussion of the current approach and issues with current definition of a GBE and the approach in GFS. The IPSASB agreed to further consider the Consultation Paper at the next meeting.

Social Benefits

The IPSASB considered an Issues Paper on Social Benefits, and noted the work that had been undertaken previously on this topic. Members agreed that the preliminary research should include national practices, national standards, and discussion papers issued by national standard setters. The IPSASB noted that GFS reporting guidelines are introducing compulsory supplementary tables on social benefits from 2017.

The IPSASB considered the scope of the project. The approved project brief excluded collective goods and services but included individual goods and services and cash transfers. Members identified the main options for the scope of the project as:

- A wider scope including collective goods and services (or even all non-exchange expenses);
- Retaining the scope in the project brief; and
- A narrower scope that only includes cash transfers.

Following discussion, the IPSASB agreed that the Consultation Paper should:

1. Discuss the scope of the project.
2. Include a Preliminary View that there should be two phases to the project, with the first phase considering cash transfers only and the second dealing with individual goods and services; the two phases should run sequentially rather than in parallel.
3. Include proposals regarding the current scope exclusion in IPSAS 19.
4. Include an explanation for the exclusion of collective goods and services.

The IPSASB agreed that the three theoretical approaches identified in the Issues Paper (IPSAS 19 basis; 'grand' executory contract; and insurance contract) should be included in the Consultation Paper. Members did not identify any further approaches. The IPSASB noted that the different approaches addressed different perspectives, and that it may be appropriate to use a combination of the different approaches. The IPSAS 19 approach provides information about present obligations. The 'grand' executory contract approach provides information on the social contract between service recipients and the reporting entity. The insurance contract approach could provide information on social insurance schemes. The provision of social benefits through funds does not raise any additional issues regarding the recognition of a liability. However, the Consultation Paper will need to consider the circumstances in which consolidation might be required.

The IPSASB agreed that detailed presentation requirements should not be included in the Consultation Paper. Instead, the paper should focus on establishing what information is required to meet the objectives of financial reporting and users' information needs, in line with the qualitative characteristics and constraints.

The IPSASB considered the issues in respect of each theoretical basis listed in the Issues Paper. It agreed these should be included in the Consultation Paper. The IPSASB agreed that the Consultation Paper should seek to align with the definitions and categorizations used in GFS. Alignment with the GFS approach to recognition could only be addressed once responses to the Consultation Paper had been received and considered.

Public Sector Specific Financial Instruments

The IPSASB considered an Issues Paper on public sector specific financial instruments, following the approval of a project brief at the December 2013 meeting.

The Issues Paper focused on the following:

- Monetary gold;
- Currency and coin in circulation; and
- International Monetary Fund (IMF) quota subscriptions and Special Drawing Rights (SDRs).

Other issues in the scope of the project, such as statutory receivables and statutory payables (as well as securitization schemes in the public sector), will be covered at the June 2014 meeting.

Staff presented research findings on accounting by a sample of central banks. The IPSASB noted that these instruments are not limited to central banks and a transactional rather than entity-specific approach should be undertaken.

The IPSASB noted variation in accounting for transactions related to these instruments. Given the importance of these transactions in the public sector, the IPSASB indicated that further research should consider the following:

- Accounting for banknotes and coins in circulation: specifically how to account for items not yet issued/circulated, impairment and derecognition, and development costs for new series of notes and coins;
- The similarity of monetary gold to cash; and
- The situation where governments in distress use the IMF loan facilities and SDRs to increase reserve assets (as IMF quota subscription members), to provide better insight on how these liquidity instruments are used.

Further, the IPSASB emphasized it would be useful to establish the project task force to help understand the technical accounting issues.

The IPSASB discussed the outputs of the project and agreed that the goal is to develop one or more IPSASs.

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Governance and Oversight Update

The IPSASB received an update on the IPSASB Governance Review, from members of the Review Group present at the meeting. The Review Group published a public Consultation Paper in January 2014, which is available for download at <http://www.oecd.org/gov/budgeting/IPSASB-Consultation-Paper.pdf>. The period for comment is open until April 30, 2014.

The paper discusses three alternatives for IPSASB governance and oversight:

1. Extending the scope of the IFRS Foundation's monitoring board and trustees activities;

2. Establishing separate monitoring and oversight bodies for the IPSASB under the auspices of IFAC; and
3. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies.

The IPSASB unanimously supports option two, establishing a separate monitoring and oversight body for the IPSASB under the auspices of IFAC. The IPSASB's view is that this alternative meets all of the characteristics for strong public interest oversight of the IPSASB. In addition, it is a practical and timely solution—important given the urgent need for oversight.

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Next Meeting

The next IPSASB meeting will be held in Toronto, Canada on June 24–27, 2014.