

28 June 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 – June 2014**

### **Introduction**

The second IPSASB meeting for 2014 was held in Toronto, on 24-27 June. This report provides an overview of the meeting and strategic matters. The appendix records progress on the conceptual framework and other technical topics.

Two members were unavoidably absent: Tim Youngberry from Australia and Ron Salole from Canada.

### **Oversight and Governance**

As previously reported, the IPSASB Governance Review Group issued a consultation paper entitled *Future Governance of the International Public Sector Accounting Standards Board (IPSASB)* in January this year. The Review Group received 42 responses.

The consultation paper sought feedback on three options for the future governance and oversight of the IPSASB:

- Option 1: Extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB;
- Option 2: Establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC; and
- Option 3: Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies.

Jón Blöndal from the OECD provided the IPSASB with an update on the responses and the Review Group's recommendations. A copy of Jón's presentation will be available on the IPSASB website (together with the slides for all of the agenda items).

Almost 80% of respondents favoured Option 2 in the short term, although in the long-term the preferences were evenly spread. Most respondents acknowledged the barriers to Options 1 and 3 in the short term.

A number of respondents agreed that monitoring and oversight functions could be combined, but there were also comments that the functions of an oversight body needed to be more clearly specified and comments about the experience and skills required by an oversight body. A common theme was the need for the IPSASB to develop a more sustainable funding model. There was also considerable support for the (re)establishment of a Consultative Advisory Group.

There was much less consensus of opinion on the mandate of the oversight body – and it is likely there will continue to be debate about whether the oversight is limited to ensuring the IPSASB's

processes operate in the public interest, or whether its role extends to strategy and agenda setting, and approval (or not) of the standards – or where along that spectrum the oversight sits.

Where to from here? The complete Review Group (including IFAC) is planning to meet in September (immediately after the IPSASB meeting) to discuss a draft Terms of Reference for a new oversight body and discuss new arrangements to propose to IFAC. This has been a long process and it is good to see progress being made.

IFAC has expressed its support for putting arrangements in place as quickly as possible.

### **Staffing**

The Board farewelled Jim Slyph (Executive Director, Professional Standards and External Relations) who has been involved with IFAC's standard setting boards for around 15 years. Jim's replacement is James Gunn, currently Technical Director of the IAASB.

The Board also farewelled Stefan Berger, the technical advisor for Andreas Bergmann. The new advisor will be Marc Wermuth, also from the Ministry of Finance in Switzerland.

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

Norbert Gaspar from the European Commission, provided the Board with an update on European Public Sector Accounting Standards (EPSAS).

The European Commission is still planning to issue a Communication on accrual accounting which will set out key principles and structures for the implementation of EPSASs. This is still in progress, but the date has moved from mid-year to October. The Communication will be supported by an impact analysis, including costs and benefits.

That communication will include a report prepared by PWC on the difficulties experienced with implementation of IPSASs. This is likely to be interesting as the draft apparently identifies which issues are based on technical reasons and which are political. I understand many of the "technical" issues identified have also been proposed by the IPSASB as possible projects in the current strategy consultation. The Task Force on Standards has also considered the possibility of using the IPSASB's Conceptual Framework as a reference point for EPSASs, although nothing has been decided yet.

### **Meeting Overview**

<b>Technical Items</b>	<b>Decisions/ Feedback</b>
2 Governance	Discussed response to Review Group Consultation Paper
3 Applicability of IPSAS to Government Business Enterprises	Approved Consultation Paper for issue
4 Conceptual Framework	Noted timetable
4A CF – Preface	Reviewed draft
4B CF– Elements and Recognition	Reviewed draft final chapter
4C CF – Measurement	Reviewed draft final chapter and approved in principle

Technical Items	Decisions/ Feedback
4D CF – Presentation	Reviewed draft final chapter and approved in principle
5 Interests in Other Entities	Reviewed responses to EDs 48 to 52
6 First-time Adoption of IPSASs	Reviewed responses to ED 53
7 Biennial Improvements ED	Approved ED 55 for issue
8 Public Sector Combinations	Reviewed responses to 2011 CP and discussed issues
9 Social benefits	Discussed issues and draft Consultation Paper
10 Public Sector Financial Instruments	Discussed issues

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.

Recent and forthcoming consultation documents issued by the IPSASB are:

- ED 54 *RPG Reporting Service Performance Information* (issued December 2013, comments closed 31 May 2014);
- Strategy and Workplan (issued March 2014, comments due 31 July 2014);
- ED 55 *Improvements to IPSASs 2014* (forthcoming); and
- CP *The Applicability of IPSASs to GBEs and other Public Sector Entities* (forthcoming).

### Next Meeting

The next meeting will be held on 15-18 September in Brussels, where it is hoped to finalise the Conceptual Framework. More than most IPSASB meetings, this will be an outreach meeting with evening functions proposed with the European Commission, FEE, and PWC, plus a yet-to-be-determined outreach event.

## **APPENDIX**

### **PROGRESS ON CONCEPTUAL FRAMEWORK AND OTHER TECHNICAL MATTERS**

#### **Agenda Item 3: Government Business Enterprises (GBEs)**

The IPSASB approved a consultation paper seeking views on options for explaining which entities it has in mind when it develops IPSASs and more specifically how GBEs fit into this picture. Up until now this project has been referred to as the “GBE project”. I am pleased that the title of the CP will now highlight the more general issue, being the applicability of IPSASs to GBEs and other public sector entities.

I’ve previously noted that the current statements about GBEs in IPSASs are incorrect. At present IPSASs make a blanket assertion that GBEs apply IFRSs and that IPSASs are to be applied by entities other than GBEs.

The CP will seek views on the two approaches, each of which consists of two options. In the first option, which I favour, the IPSASB will acknowledge the fact that regulators and other relevant authorities determine which standards are applied by which entities. The IPSASB will provide assistance for regulators (and entities voluntarily electing to apply IPSASs) by explaining the types of entities that IPSASs are intended for. This could be done (i) using terminology from the Conceptual Framework and IPSASs or (ii) using terminology from GFS reporting guidelines.

The second approach would be to continue to define GBEs (but to try and resolve some of the problems with the current definition) either (i) with more detail around the current definition or (ii) with more detail, but limiting the definition of GBEs to entities with profit objectives (rather than merely cost recovery).

#### **Agenda Item 4: Conceptual Framework**

The Conceptual Framework project is in tidy up and finalise mode and the project is on track for final approval in September.

The current IASB timetable is to finalise the Conceptual Framework in 2016. It is unfortunate that the IASB project and the IPSASB project will be finalised at different times, but the IPSASB is understandably keen to complete its project. When the IPSASB started work on this project back in 2007 it would have been impossible to predict that the IPSASB would be the first to finish.

The IPSASB noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Integrated Reporting Council have announced that they are creating the Public Sector Pioneer Network to promote the implementation of Integrated Reporting (IR) in the public sector. The aim of the network is to identify and address key sector-specific issues for IR and facilitate the application of IR to public sector organisations.

#### **Agenda Item 4A: Preface**

Some of you might recall that the Preface started life as a staff paper entitled *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)*. The original aim of the staff paper was to highlight some high level and general characteristics of the public sector that affected standard setting. The IPSASB decided that the document would provide a helpful

introduction to the Conceptual Framework and agreed to include it as a Preface. The draft Preface includes reference to how some of these characteristics have influenced the Conceptual Framework.

The entire Preface is only a few pages long but we still managed to spend an hour discussing changes to the text. The IPSASB will consider the Preface for approval in September.

#### **Agenda Item 4B: Elements and Recognition**

The IPSASB provided feedback on the draft chapters on elements and recognition. The focus was on whether the IPSASB's previous decisions had been appropriately reflected in the text and whether there was a sensible flow of ideas.

There was a considerable amount of editing and discussion but overall the chapters are in good shape for approval in September.

#### **Agenda Item 4C: Measurement**

The IPSASB provided feedback on the draft chapter on measurement. Again, the focus was on whether the IPSASB's previous decisions had been appropriately reflected in the text.

The chapter on measurement was approved in principle.

#### **Agenda Item 4D: Presentation**

At the last meeting the IPSASB considered respondents' comments on CF-ED4. At that meeting the IPSASB decided to continue with the terminology that it had developed and sought feedback on in that ED (being presentation, display and disclosure). It also agreed to consider a restructuring of the material in the chapter. The focus at this meeting was on reviewing the revised chapter and considering further issues raised by members.

The restructuring of the chapter met with general agreement. The IPSASB considered the draft chapter and, subject to changes agreed at the meeting, approved the chapter on presentation in principle.

#### **Agenda Item 5: Interests in Other Entities**

The purpose of this session was to consider respondents' comments on EDs 48 to 52 *Interests in Other Entities*.

Overall respondents' comments were generally favourable regarding the approach taken by the IPSASB. There were some negative responses that disagreed with using IFRSs as a base for the public sector standards and the process undertaken by the IPSASB in developing the EDs. The IPSASB considered these responses and decided to continue developing standards based on the EDs.

The IPSASB considered the comments received and provided directions on how to proceed in developing standards. With regard to ED 49 *Consolidated Financial Statements*, the IPSASB proposes to continue to require consolidation of all controlled entities (apart from the circumstances outlined in the ED) and to continue with its investment entity proposals. Other, more detailed issues will be considered at subsequent meetings. One such issue is the possibility of requiring disclosures about

temporarily controlled investments. Further development of the proposed standards will take place over the next two meetings.

A number of members mentioned that implementation difficulties and the costs involved, particularly for whole of government consolidations, will present a barrier to compliance with the standard, and hence compliance with IPSASs. This isn't a new issue – IPSAS 6 has always been regarded as a challenging standard to implement. Members were not necessarily proposing changes to the proposed standard but they were keen to explore ways in which they could acknowledge constituents' concerns and assist them with implementation issues. The possibility of developing some form of guidance describing how various countries have tackled implementation issues was raised. Another suggestion was to promote the use of segment reporting as a way of providing information on subsectors of government.

In the discussion of temporarily controlled entities, four countries shared their experiences with entities rescued by governments during a financial crisis. Of these, two had consolidated the rescued entities and one had received a qualified audit report for not consolidating an entity.

#### **Agenda Item 6: First-time Adoption of IPSASs**

The purpose of this session was to consider respondents' comments on ED 53 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. Respondents were generally supportive of the proposals in the ED.

One of the proposals was to permit a number of transitional exemptions, mainly for the recognition of assets and liabilities, that would affect fair presentation and to limit the period of these exemptions to three years. A number of IPSASs already give exemptions from recognition of certain items for a period. What is new is the IPSASB's proposal that an entity applying exemptions that affect fair presentation would assert compliance with the transition standard rather than with the suite of IPSASs. There was a strong body of support for this proposal but also a few suggestions that 3 years was too short and other suggestions that an entity should determine its own transition period. In response staff suggested that the relief provided in this IPSAS should not be seen as a complete roadmap for the adoption of accrual basis IPSASs, but rather the *end stage* of their application. That is, much of the data collection and planning should have occurred before an entity first applies the transition standard. I think the IPSASB needs to sell that message to constituents.

The other issue that generated a few comments was the proposal to split the proposals into those that would affect assertions of compliance with IPSAS, and those that wouldn't. If an entity applied the concessions in the first group it would be limited to asserting compliance with the standard on first-time adoption. Some respondents didn't consider that this distinction was necessary. The IPSASB has tried to provide as much relief as possible to constituents, while also thinking about how to ensure that readers understand the extent to which the financial statements are IPSAS-compliant. I consider that it is important to keep the two types of concessions separate. The IPSASB agreed and the distinction will be kept in the final standard.

There will be a number of other changes to the proposals in response to respondents' feedback, but these are more in the nature of fine tuning. I expect that the proposed standard will be finalised later this year.

## **Agenda Item 7: Biennial Improvements**

The IPSASB approved ED 55 *Improvements to IPSASs 2014*. Generally there is an improvements project every two years.

Under the *Policy Approach to Developing PBE Standards* in New Zealand, there is a rebuttable presumption that minor amendments to an IFRS (and therefore an NZ IFRS) would not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change. So, we welcome timely consideration of IFRS Improvements as it helps avoid unnecessary differences between the standards for for-profit entities and PBEs. In this ED the IPSASB has considered the relevance of the following changes to IFRSs for IPSASs:

- (a) Annual Improvements to IFRS 2009-2011 (approved May 2012);
- (b) Annual Improvements to IFRS 2010-2012 (approved December 2013); and
- (c) Annual Improvements to IFRS 2011-2013 (approved December 2013).

It also considered the applicability of various Narrow Scope Amendments to IFRS.

## **Agenda Item 8: Public Sector Combinations**

It feels like it was a long time ago that this project started. We've had a Consultation Paper, followed by an ED, then another Consultation Paper. I'm pleased it is back on the active agenda.

The problem has been how to split out those combinations that are straightforward acquisitions that should be accounted for at fair value, from the other types where different accounting such as the use of carrying amounts might be proposed. The IPSASB has previously considered, and discounted, using exchange/non-exchange and consideration/no consideration to differentiate between types of combinations. This time staff were proposing that the existence, or absence, of ultimate owners be used as the first differentiating factor, with common control or the lack of common control being the second distinguishing factor. The problem with this proposal is that different jurisdictions have different views about the existence of ownership interests in the public sector (and this was evident in the Board's discussions on this topic). In New Zealand we are accustomed to talking about ownership interests, even in the absence of formal equity instruments.

The IPSASB decided not to adopt the staff proposal. Instead it requested that staff go back and focus on those aspects of the Consultation Paper that respondents disagreed with.

In substance, I think the Board is fairly well settled in the approach it will take but is uncertain where to resolve the "border" between separate public sector amalgamations and acquisitions. For example, when a large local authority merges with a small one, is that an acquisition, or the creation of a new entity?

## **Agenda Item 9: Social Benefits**

At this meeting the IPSASB focussed on the development of a Consultation Paper including the structure of the paper, the issues to be covered and whether the IPSASB wanted to express any tentative views.

At this stage the IPSASB is proposing that the project focus first on cash transfers, and then on other social benefits. Although we are talking about a project being conducted in two phases, we are not necessarily looking at two standards. Rather the idea is that the debate and conclusions from the first phase could inform the debate on the second phase.

To the extent possible, the IPSASB proposes to align the definitions of types of social benefits with the way in which those terms are used in the System of National Accounts (SNA). We spent quite a bit of time talking about types of schemes. No classification system is black and white but we do need to group types of schemes to consider the issues. In particular we noted that the term “social insurance schemes” is sometimes used fairly loosely.

- In social insurance schemes the payment of the social benefit is dependent on contributions, however this dependency can take a number of forms:
- The amount of the individual benefit or entitlement depends on the amount of the individual contribution (this can be likened to a compulsory savings scheme)
- The eligibility to receive benefit or entitlement depends on the amount of the individual contribution (this can be likened to a compulsory individual insurance scheme)
- The amount of the benefit or entitlement settings depends on the amount of the total contribution settings, beneficiaries however needn't precisely match contributors (this can be likened to a compulsory social insurance scheme)

Regarding the scope of the project, the IPSASB agreed that it should include some transactions regarded as exchange transactions in SNA, but not those obligations that are already covered by IPSASs (such as employee benefits and financial instruments). Having said that, the project might lead to a review of some existing requirements (such as concessionary loans).

The Consultation Paper will outline three possible approaches to accounting for social benefit obligations:

- Option 1 A “Liability Approach” (the title isn't confirmed yet but it is to be based on the Conceptual Framework and IPSAS 19)
- Option 2 ‘Grand’ Executory Contract Basis
- Option 3 Insurance Accounting Basis

## **Agenda Item 10: Public Sector Financial Instruments**

At the March meeting the IPSASB discussed 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.

At this meeting the IPSASB considered the nature of statutory receivables, statutory payables and securitisation and whether it should develop guidance on these topics.



The significant issue here is where Governments securitise future revenue streams, e.g. tax revenues or petroleum royalties. This has been a response by many cash strapped governments to the GFC. At one level it also occurs when Governments offer tax incentives in return for entities doing business in their jurisdiction. The critical accounting issue is how to treat the contra to the cash received – is it securitised borrowing, the sale of an asset, or revenue?

The IPSASB agreed that staff should develop a consultation paper dealing with:

- (a) monetary reserve instrument transactions (monetary gold, IMF instruments and currency issued by the entity); and
- (b) statutory receivables, statutory payables and securitisations.