

## IPSASB Report on Meeting 15-18 September 2014 – Brussels

(Prepared by Joanna Spencer)

- 1 The September 2014 IPSASB meeting was held in Brussels, Belgium from 15-18 September 2014 and was hosted by the European Commission (EC).

### Strategic and Operational Matters

- 2 The meeting was opened with a welcoming address from Manfred Kraff – Deputy Director-General for Budget at the EC. He discussed the current thinking by the EC about public sector accounting standards in the European Union (EU), which is that IPSASs cannot be translated into European Public Sector Accounting Standards (EPSASs) but can be used as a basis for EPSASs.

### Attendance

- 3 Both Tim Youngberry (Australia) and Ken Warren (New Zealand) attended the meeting along with their respective Technical Advisors, Joanna Spencer and Joanne Scott.
- 4 The chair noted an apology from the French member, Guy Piolé, and welcomed Marc Wermuth, the new Technical Advisor for the Chair (Swiss member).

### Membership

- 5 Jeanine Poggiolini (South African member) has been appointed as the Deputy Chair commencing 1 January 2015, to follow the retirement of Ron Salole (Canadian member). Both Kenji Izawa (Japanese member) and Adriana Tiron Tudor (Romanian member) have been reappointed for another term. New members joining the Board in 2015 are Angela Ryan as a replacement for Ken Warren and Rod Monette as a replacement for Ron Salole. Guy Piolé has resigned from the Board and will be replaced by Michel Camoin.
- 6 The German member, Thomas Müller-Marqués Berger, will retire from the Board at the end of 2014 after two terms. He will not be replaced, reducing the size of the Board from 19 members back to the usual 18 members.

### IPSASB Governance

- 7 Brian Quinn from the World Bank gave an update on the results from the consultation regarding the future of the governance of the IPSASB. There were 42 respondents and the majority preferred Option 2 – *Establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC* – in both the short-term and long-term.

## European Public Sector Standards

- 8 Alexandre Makaronidis – Head of Unit – Head of Task Force EPSAS at Eurostat provided an update on EPSASs. He discussed the latest developments on the EPSAS project. This included:
- an impact statement is being prepared to support the next steps of the project;
  - the results from a PwC study will be analysed to determine the suitability of IPSASs as a proxy for EPSAS; and
  - Eurostat are closely following the work of the IPSASB.

## Strategy and Work Plan

- 9 The purpose of this session was to provide a brief overview of the responses to the IPSASB's Strategy Consultation Paper (CP). A more in-depth review will be conducted at the December 2014 meeting.
- 10 There were 32 respondents and the majority were generally in support of the proposals. The Board noted the New Zealand XRB's offer of assistance with any future projects.
- 11 Question 1 of the CP concerned the strategic objective. The Board decided to amend the proposed objective as follows (new text is underlined):
- Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:*
- (a) developing high-quality public sector financial reporting standards;*
  - (b) developing other publications for the public sector; and*
  - (c) raising awareness of the IPSASs and the benefits of their adoption.*
- 12 The CP identified two outcomes<sup>1</sup> (question 2) and whilst some respondents made some suggestions, staff recommended no change. The Board decided that the outcome statement could be redrafted.

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1 To meet its strategic objective the IPSASB has identified two outcomes it seeks to achieve. These are:

- (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.

- 14 The CP also identified two outputs<sup>2</sup> (question 3) and again despite some comments from respondents the staff recommended no change. However, the Board agreed that the wording could be revised.
- 15 Redrafted outcomes and outputs will be considered at the December 2014 meeting.
- 16 Question 4 of the CP asked respondents to provide suggestions for any feedback mechanisms the IPSASB should investigate employing. These included an interpretations committee (no support from the Board), the use of technology e.g. webinars and roundtables. No decisions regarding feedback mechanisms were made.
- 17 Question 5 of the CP asked constituents whether they agreed with the five key factors (significance for the public sector; urgency of the issue; gaps in standards; IFRS convergence; and alignment with Government Financial Statistics) the IPSASB considers when setting its work program. Constituents were generally supportive. The Board decided that the final document should clarify that these factors are not ranked.
- 18 Questions 6 and 7 of the CP addressed the future of the Cash Basis IPSAS and gave three options: withdraw the IPSAS, retain the IPSAS but do no further work on it or retain the IPSAS and continue with a review project. The responses from constituents were split over the three options. The Board decided to retain the Cash Basis IPSAS and suspend the review project.
- 19 An analysis of constituent responses to the IPSASB work program will be brought to the December 2014 meeting.

## **Technical Program**

### Conceptual Framework

- 20 IPSASB staff gave an overview of the tentative decisions made in respect of the IASB's Conceptual Framework Project and the tentative decisions made at the June and July IASB meetings.
- 21 The IPSASB Chair stated that there does not appear to be any fundamental differences between the IPSASB CF and the IASB CF.
- 22 Differences identified between the two CFs are as follows.
- 23 Whereas the IASB has retained the concept of materiality being an entity-specific aspect of relevance, the IPSASB CF treats materiality as a constraint on information included in general purpose financial reports (GPFs).
- 24 In respect of measurement, the IASB has tentatively decided not to have a measurement objective – unlike the IPSASB CF.

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2 To achieve these outcomes the IPSASB will be focused on delivering the following outputs:  
(a) developing high-quality financial reporting standards and other publications for the public sector; and  
(b) undertaking presentations, speeches and other outreach activities in order to engage with stakeholders.

- 25 Regarding present obligation, the IASB tentatively decided that an entity has a present obligation to transfer an economic resource if it has both:
- no practical ability to avoid the transfer; and
  - the amount of the transfer is determined by benefits that the entity has received, or activities that it has conducted in the past.
- 26 This is slightly different from the IPSASB CF whereby an entity has a present obligation if it has little or no realistic alternative to avoid the outflow of resources.
- 27 The IASB has tentatively decided that control is an essential characteristic in the definition of an asset and is not a recognition criterion. Exposure to significant risks and rewards is an indicator of control. The IPSASB decided not to include risks and rewards as an indicator of control because it might not be consistent with the control approach.
- 28 The IASB has tentatively decided not to include definitions of elements for the statement of cash flows and the statement of changes in equity. This is consistent with the approach taken in the IPSASB CF.

#### IPSASB CF

- 29 The Board reviewed a draft of the Preface of the CF, which addresses key aspects of the public sector that are relevant to financial reporting and discussed three key issues:
- the use of the word compulsory instead of voluntary in the section ‘The Volume and Financial Significant of Non-Exchange Transactions including Compulsory Transfers’;
  - the absence of discussion on public sector-specific liabilities; and
  - references to consideration of GFS reporting guidelines in the section *Relationship to Statistical Reporting*.
- 30 Editing from this discussion was undertaken by staff and the revised preface was formally approved by the Board later in the meeting.

#### *Elements and Recognition*

- 31 The Board reviewed drafts of Chapter 5 *Elements in Financial Statements* and Chapter 6 *Recognition in Financial Statements*. Key issues discussed included:
- distinguishing a present obligation and other obligations;
  - definitions of revenue and expenses; and
  - recognition criteria.
- 32 The Board confirmed that a present obligation is an obligation for which an entity has little or no realistic alternative to avoid an outflow of resources.

- 33 The definitions of revenue and expenses were confirmed as follows:
- revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions; and
  - expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.
- 34 Net financial position is new in the CF and is ‘the difference between assets and liabilities after adding other resources and deducting other obligations recognised in the statement of financial position’. Other resource is the term used instead of deferrals that was concept the IPSASB could not agree on.
- 35 Regarding the recognition criteria, an item is to be recognised when it satisfies the definition of an element and can be measured so that it meets the qualitative characteristics and constraints on information for general purpose financial reports.
- 36 The Board considered whether Chapter 5 should be re-exposed but decided against this.
- 37 Chapters 5 and 6 were formally approved.

#### *Measurement*

- 38 Chapter 7 *Measurement* was reviewed for changes decided at the June 2014 meeting, and was formally approved. The measurement objective is:

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

#### *Presentation*

- 39 Chapter 8 *Presentation* was reviewed for changes decided at the June 2014 meeting and was formally approved.
- 40 The complete IPSASB Conceptual Framework has now been approved and is expected to be issued in October 2014.

#### *Presentation by Ian Mackintosh*

- 41 Ian Mackintosh, Deputy Chair of the IASB gave a presentation on the activities of the IASB and where they are heading with their Conceptual Framework. He mentioned that unlike the IPSASB CF the IASB CF is not proposing to have a measurement objective.

## Reporting Service Performance

- 42 The objectives of this session were to:
- review responses to ED 54 Reporting Service Performance Information; and
  - provide directions for development of the Recommended Practice Guideline (RPG).
- 43 Regarding Specific Matter for Comment (SMC) 1 (general proposals), the Board discussed the RPG's overall approach. Several respondents queried whether reporting on service performance information was within the mandate of the IPSASB. The Board noted that RPGs are not mandatory and do not affect compliance with IPSASs.
- 44 The Board discussed whether an assessment of economy should be included in the RPG, but no decision was made. The Board also discussed whether any implementation guidance should be included in the final RPG but agreed with the staff recommendation that such guidance should not be included.
- 45 Regarding SMC 2 (definitions), the majority of respondents agreed with the definitions, but staff recommended that the definition of effectiveness be amended to read 'effectiveness is the relationship between service performance objectives expressed in terms of planned outputs or outcomes and actual results for those objectives'.
- 46 The majority of respondents agreed with SMC 3 (reporting at different levels of government) so no changes were proposed.
- 47 Regarding the responses to SMC 4 (reporting frequency and reporting period), the majority of respondents agreed with the proposals in ED 54. Staff recommended that revisions be made to reflect specific comments made by respondents that the RPG should:
- require additional disclosures if an entity uses a different reporting period from that for financial statements;
  - place a time restriction on the extent of reporting period difference; and
  - make clear that more frequent reporting is also acceptable.
- 48 There was no clear consensus from the Board.
- 49 SMC 5 addressed presentation principles and the majority of respondents agreed with the proposals. Some respondents provided suggestions for improvement such as:
- further guidance was needed on the application of qualitative characteristics and constraints;
  - the scope to use a cost/benefit argument to justify not reporting required information should be removed;
  - reduce the emphasis on assessment of financial results; and
  - revise the wording regarding the relationship between jurisdictional and RPG requirements.

- 50 IPSASB staff recommended that these suggestions should be referred to the Task-based Group (TBG) for further consideration and the Board agreed.
- 51 SMC 6 concerned what factors should be considered when deciding whether to present service performance information in the same report as the financial statements or as a separate report and what additional information should be provided if the information is presented in a separate report. Staff recommended that a further additional factor for consideration is the proximity of service performance information to actual-budget comparisons. The Board was not convinced but no decision was made regarding the staff recommendation.
- 52 SMC 7 asked whether entities should be able to make their own determination regarding presentation style. The majority of respondents agreed with this proposal and the staff recommended no changes. The Board agreed.
- 53 SMC 8 identified what information should be displayed and disclosed. The majority of respondents agreed with the proposals in the ED. Staff recommended that, following respondents comments, the disclosures on the basis of service performance information (paragraph 80 of ED 54) should be required rather than merely encouraged. The Board cautioned against having too many disclosures but decided that this should be referred to the TBG.
- 54 The ED provided principles and guidance for entities to choose their performance indicators and SMC 9 asked constituents whether they agreed with this approach – the majority agreed.
- 55 The following comments were raised by constituents:
- outcome reporting should be more than merely encouraged;
  - there is a need to emphasise a balanced set of indicators;
  - move some of the Basis for Conclusions coverage into the RPG; and
  - provide more guidance on the choice, particularly the principles for choosing between quantitative measures, qualitative measures or qualitative descriptions.
- 56 The Board decided that these comments should be referred to the TBG.
- 57 The Board requested that a revised draft RPG be brought to the December 2014 meeting.

#### Interests in Other Entities

- 58 The responses to EDs 48-52 were reviewed at the June 2014 meeting, and from that review the Board gave staff direction regarding amendments to the proposals. At this meeting, staff provided marked up copies reflecting these amendments and the Board reviewed these documents.
- 59 Staff also provided a comparison of the concept of control in ED 49 *Consolidated Financial Statements* against the Government Finance Statistics Manual's guidance on control and IPSAS 6 *Consolidated and Separate Financial Statements*. The Board noted that there might be room for further harmonisation but that this should not delay the project.

- 60 It is anticipated that this suite of standards will be presented at the December 2014 meeting for approval.

#### First-Time Adoption of IPSASs

- 61 Constituent comments to ED 53 *First-time Adoption of Accrual Basis IPSASs* were discussed at the June 2014 meeting. At this meeting the Board discussed issues that were raised in June 2014, in particular:
- (a) provision of transitional relief for interests in other entities and in preparing consolidated financial statements; and
  - (b) provision of an illustrative draft of different classifications of transitional exemptions and provisions.
- 62 Regarding (a), staff recommended and the Board agreed that a first-time adopter may elect to adopt a three-year relief period for the recognition and/or measurement of interests in controlled entities, associates and jointly controlled entities in its separate financial statements to the extent that it has not recognised those interests under its previous basis of accounting.
- 63 The Board further supported the staff recommendation to provide entities relief to not prepare consolidated financial statements where a first-time adopter has taken advantage of the exemption to (i) recognise and/or measure its interest in an investment within a period of three years and/or (ii) not eliminate inter-entity balances, transactions, revenue and expenses between entities within the economic entity within a three-year period.
- 64 Regarding (b), the Board agreed with the format the staff proposed in the draft standards. This is in a table format that illustrates the differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and those that the adopter can elect to apply on adoption of accrual-basis IPSASs.
- 65 The Board then conducted a page-by-page review of a draft standard and it is expected that approval of this Standard will be sought at the December 2014 meeting.

#### Public Sector Combinations

- 66 The purpose of this session was to provide staff with direction for the classification of public sector combinations. The main issue for debate was whether the primary distinction should be between combinations under common control (UCC) and combinations not under common control (NUCC). Board members agreed with this primary classification but there was debate that the primary distinction should be whether the combination was an amalgamation or an acquisition. The Board decided that combinations UCC would, in the main, be accounted for as an amalgamation but there may be rare occasions when a combination UCC could be an acquisition.
- 67 The Board also discussed a number of factors, that may indicate the nature of combinations (amalgamation or acquisition) for entities NUCC. These factors include:
- transfer of consideration or significant consideration;



- exchange transactions;
  - change in sector;
  - voluntary or involuntary combination; and
  - nature of jurisdiction.
- 68 The Board agreed that these factors should be taken into consideration, other than the nature of jurisdiction.
- 69 It is anticipated that further discussions on this project will be undertaken at the December 2014 meeting.

#### Public Sector Financial Instruments

- 70 The Board discussed issues regarding an introduction and a chapter on monetary gold for a proposed consultation paper under this project.
- 71 Regarding monetary gold, staff proposed a definition as “gold bullion assets held by monetary authorities as reserve assets”. This definition was neither accepted nor rejected but it was suggested that any definition should be aligned to a Government Finance Statistics and System of National Accounts definition as much as possible. Staff were also directed to consider a monetary gold definition against existing financial instrument definitions.
- 72 The Board also discussed the scope of monetary gold and directed staff to give consideration to different types of gold and/or gold assets and the purpose for which they are being held as this will be a factor in determining whether an asset falls into the category of monetary gold.
- 73 Regarding measurement, the Board noted that different jurisdictions use different methods to measure gold. The Board requested consideration of the measurement objective in the CF.
- 74 The Board also discussed the recognition and derecognition of monetary gold. No decisions were made as the Board suggested that because this was to be a CP no conclusions should be made.

#### Social Benefits

- 75 The Board discussed an issues paper and an outline of a draft CP on social benefits. This draft introduced new material since the June 2014 meeting, which included:
- the social contract approach;
  - the social insurance approach;
  - presentation;
  - whether the objectives of financial reporting and qualitative characteristics should be included in the CP; and
  - a diagram – The SNA Classification of Social Benefits.
- 76 The Board also reviewed revised drafts of chapters on:

- introduction;
- scope and definitions;
- identification of approaches; and
- option 1 – obligating event approach.

Staff will consider Board member comments and present further drafts at a future meeting.

### **Other Activities**

- 77 In addition to the meeting, three official functions were organised.
- 78 On the Monday evening, a reception was hosted by the Fédération des Experts-comptables Européens – Federation of European Accountants (FEE). The FEE gave a presentation on their thoughts on the future of public sector accounting in the EU. They would prefer that member states adopt IPSASs but given the response to the Eurostat consultation consider that the introduction of EPSASs that would be based on IPSASs is the most likely outcome.
- 79 On the Tuesday evening an official IPSASB dinner was hosted by the European Commission.
- 80 Wednesday evening saw a presentation from PwC on the results of a survey they had conducted on EU member states’ opinions on whether EPSASs/IPSASs should be introduced into the EU. The main criticisms that arose from this study were:
- there is no public sector Conceptual Framework;
  - governance issues regarding the IPSASB;
  - there is no IPSAS on social benefits; and
  - there is no IPSAS on non-exchange expenses.
- 81 If the EU decides to go ahead with public sector accounting standards, a time-frame of 2020 has been suggested.

### **Future Meetings**

The upcoming IPSASB meetings are as follows:

8-11 December 2014 – Toronto, Canada

10-14 March 2015 – Santiago, Chile

23-26 June 2015 – Toronto, Canada

22-25 September 2015 – Toronto, Canada

8-11 December 2015 – Toronto, Canada