

MEETING HIGHLIGHTS

September 2014

Contact: Sonia Tavares (soniatavares@ifac.org)

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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

As a result of decisions made at this meeting *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* has now been approved in its entirety. A Press Release was issued on 18th September. The Conceptual Framework will be available publicly in late October/early November 2014.

Elements and Recognition

Distinguishing a Present Obligation from Other Obligations

The IPSASB noted that public sector entities can have a number of obligations and discussed the distinction between a present obligation and other obligations that an entity may enter into. The IPSASB concluded that a present obligation is an obligation where an entity has little or no realistic alternative to avoid an outflow of resources.

Revenue as Gross or Net Inflows of Resources

The IPSASB considered whether discussion on the definition of revenue should specify whether the increase in net financial position giving rise to revenue is “gross” or “net”. The IPSASB recognized that a “gross” approach might not be appropriate in areas such as the disposal of property, plant, and equipment where such a definition would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Conversely, presentation of the “net” position on the face of the financial statements might not meet user information needs in certain circumstances, for example, the sale of inventory. The IPSASB concluded that whether the increase in net financial position represented by revenue should be presented gross or net should be determined at standards level, dependent on which treatment better meets the objectives of financial reporting.

The IPSASB approved final revised definitions of revenue and expense:

- Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

- Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

Recognition Criteria

The IPSASB determined that the recognition criteria should be:

- An item satisfies the definition of an element; and
- Can be measured in a way that satisfies the qualitative characteristics and constraints on information included in general purpose financial reports.

The IPSASB carried out a page-by-page review of Chapter 5, *Elements in Financial Statements* and Chapter 6, *Recognition in Financial Statements*, and identified a number of final drafting and editorial changes. The IPSASB approved the chapters.

Re-Exposure

Following approval the IPSASB considered whether parts of Chapter 5 should be re-exposed. The IPSASB acknowledged that the decision that other economic phenomena may need to be recognized in order to meet the objectives of financial reporting is a major shift from the proposal in the Exposure Draft to define deferred inflows and deferred outflows as elements. As such it represented a substantial change to the substance of a proposed international pronouncement. On that basis there is some case for re-exposure. On balance the IPSASB considered that all the viable options for dealing with deferred flows had been raised as part of the due process at Consultation Paper and Exposure Draft stages and had been considered thoroughly by the IPSASB. The IPSASB considered that the costs of re-exposure were unlikely to be commensurate with the benefits. The IPSASB voted against re-exposing the chapter.

Measurement

The IPSASB considered revisions made to the Conceptual Framework's Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. This chapter had been approved in principle at the June 2014 IPSASB meeting. Since then staff had revised the Chapter for minor changes in accordance with directions at that meeting and for further changes following a review for consistency with other parts of the Conceptual Framework. The IPSASB formally approved the revised chapter.

Preface to the Conceptual Framework for General Purpose Financial Reporting

The IPSASB considered a further version of the Preface. The IPSASB directed that there should be:

- A clearer statement that interpretation of the going concern principle in the public sector should consider the longevity of nation states and the nature of many public sector programs.
- A short discussion of public sector liabilities, noting that many liabilities are related to the service delivery objectives of public sector entities and arise from non-exchange transactions. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation.

The IPSASB made a number of final structural and drafting changes. The IPSASB then approved the Preface.

Presentation in General Purpose Financial Reports

Input for the Conceptual Framework highlight:

The IPSASB considered revisions made to the Conceptual Framework's Chapter 8, *Presentation in General Purpose Financial Reports*. This chapter had been approved in principle at the June 2014 IPSASB meeting. Since then staff had revised the Chapter for minor changes in accordance with directions at the June meeting and for further changes following a review for consistency with other parts of the Conceptual Framework. The IPSASB reviewed the revised chapter and formally approved it.

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

Reporting Service Performance

The IPSASB reviewed responses to ED 54, *Reporting Service Performance Information*, a draft Recommended Practice Guideline (RPG). The review considered respondents' comments and issues raised under each of the nine Specific Matters for Comment (SMCs). The majority of respondents agreed with the ED's general approach, which the IPSASB confirmed. The IPSASB also:

- (a) Directed that the RPG should not include illustrative case studies or appendices with multiple examples, and that the possibility of adding "assessment of economy" to the RPG's objective should be considered further;
- (b) Confirmed the terms defined in the RPG, although the definition of "effectiveness" will be reviewed;
- (c) Decided that the RPG's present recommended disclosures and any proposed additional disclosures should be critically reviewed during further development of the RPG, given the importance of avoiding disclosure overload and developing a document that meets the needs of users for information about diverse services and performance contexts internationally.

The next step is for staff and the TBG to develop a draft RPG, which will be submitted to the IPSASB's December 2014 meeting.

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

Interests in Other Entities

The IPSASB considered changes that had been made to the draft standards comprising this project having regard to constituents' responses on EDs 48 to 52, *Interests in Other Entities* and feedback from the IPSASB in June. Approval of these standards will be sought in December.

The IPSASB considered an updated comparison of concepts of control in ED 49, *Consolidated Financial Statements* and a pre-publication version of the Government Finance Statistics Manual 2014 (GFSM 2014). The IPSASB noted that the use of the concepts is broadly similar in both systems of reporting. The IPSASB will continue to consider whether there are any further opportunities for alignment in the context of its ongoing project on alignment.

The IPSASB also noted the impact of these draft standards on the proposals being considered in the project on first-time adoption.

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

First-time Adoption of Accrual Basis IPSASs

The IPSASB previously agreed to debate two additional matters at the September 2014 meeting before the IPSAS pronouncement on *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* could be finalized. In addition to considering these matters, the IPSASB also debated an alternative classification of transitional exemptions and provisions between those that a first-time adopter may elect to apply, and those that a first-time adopter is required to apply on adoption of accrual basis IPSASs.

Input was also provided on the first draft of the proposed IPSAS pronouncement with the aim to finalize the pronouncement at the December 2014 meeting.

Transitional relief for interests in other entities and in preparing consolidated financial statements

Providing a three year relief period for the initial recognition and/or measurement of interests in other entities

Respondents to ED53 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards Board (IPSASs)* questioned why no transitional relief was provided for the recognition of interests in controlled entities, associates and jointly controlled entities, while, on the other hand, a first-time adopter may elect to apply three year relief for the recognition and/or measurement of financial assets. In the absence of specific relief provided in IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures*, a first-time adopter is required to recognize and/or measure its interests in another entity on the date of adoption of accrual basis IPSASs.

Members supported staff's proposal to provide relief to a first-time adopter for the initial recognition and/or measurement of its interests in other entities. Members noted that this relief is needed to provide additional assistance to a first-time adopter on the date of adoption as some entities may not have the necessary information, or it may be difficult to gather the necessary information, to appropriately classify its interests in other entities between investments in controlled entities, joint ventures or associates on the date of adoption.

Preparing consolidated financial statements where a first-time adopter has elected to apply a three year relief period to not eliminate inter-entity balances, transactions, revenue and expenses, and/or where it elects to apply relief for recognition and/or measurement of interest in other entities

The IPSASB also noted respondents' comment to the Exposure Draft on the preparation of consolidated financial statements where a first-time adopter has elected not to eliminate some, or all of the inter-entity balances, transactions, revenue and expenses between entities within the economic entity, up to a period of three years following its adoption of accrual basis IPSASs.

The IPSASB supported staff's view that preparing consolidated financial statements during this relief period will merely result in an aggregation of balances, transactions, revenue and expenses between entities within the economic entity, which questions the faithful representation in preparing consolidated financial statements.

The IPSASB agreed that where a first-time adopter has elected not to eliminate some of the inter-entity balances, transactions, revenue and expenses, and/or where it has elected to apply relief for the recognition and/or measurement of its interest in other entities, it cannot present financial statements as consolidated financial statements until the inter-entity balances, transactions, revenue and expenses have been eliminated, and/or its interests in other entities have been recognized and/or measured appropriately. The

IPSASB also agreed that providing some disclosures to explain to users why the financial statements are not presented as consolidated financial statements during this transitional period, will be appropriate.

Alternative classification of the transitional exemptions and provisions

As agreed at its June 2014 meeting, the IPSASB considered an alternative classification of the transitional exemptions and provisions between those that a first-time adopter may elect to apply, and those that a first-time adopter is required to apply on the adoption of accrual basis IPSASs.

Some members supported the format used in the Exposure Draft as it provided a clearer distinction between those exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, and those that do not. Others were of the view that the alternative format may be easier to understand.

After some consideration, the IPSASB agreed that the format used in the Exposure Draft should be retained. It was also agreed that the Appendix that summarizes which transitional exemptions and provisions should be applied and which may be applied, along with an indication of the impact on fair presentation and the ability to assert compliance with accrual basis IPSASs, should be included in the final pronouncement to assist first-time adopters in understanding the impact of electing to apply certain transitional exemptions and provisions.

It was also agreed that staff should consider whether the Implementation Guidance could be further clarified to explain this impact.

Review of the first-draft of the proposed IPSAS on *First-time Adoption of Accrual Basis IPSASs*

The IPSASB conducted a page-by-page review of the first draft of the proposed IPSAS that incorporated the amendments as agreed at the June 2014 meeting.

In addition to agreeing certain editorial amendments, the IPSASB agreed that the proposed pronouncement should clarify that during the transition to accrual basis IPSASs, a first-time adopter needs to consider the requirements in this IPSASs, but when the transitional period is complete, the requirements in all the other accrual basis IPSASs should be applied before compliance with accrual basis IPSASs can be claimed.

The IPSASB also agreed that the proposed IPSAS should clarify that a first-time adopter should assess whether there is an indication that an asset is impaired, not only when the asset is recognized and/or measured, but also when the transitional exemptions and provisions that provided a three year relief, have expired.

It was also agreed that some of the disclosure requirements should be combined and/or separated between general disclosures, for example those disclosures that relate to an explanation of the transitional exemptions and provisions affecting and not affecting fair presentation, and the ability to assert compliance, and those disclosure requirements that relate to specific transitional exemptions and provisions that were adopted, for example the transitional exemptions and provisions that have been adopted for the recognition and/or measurement of certain assets and/or liabilities.

The IPSASB also agreed with the additions to the Implementation Guidance and did not identify any additional illustrations or examples that should be added.

Way forward

At its December 2014 meeting, the IPSASB will consider and debate the second draft of the proposed IPSAS, with the objective to approve the pronouncement as a final IPSAS.

As the proposed IPSAS is likely to be issued with, or shortly before the IPSASs on interests in other entities, the revised draft will also include the transitional exemptions and provisions from the proposed IPSASs on *Separate Financial Statements, Consolidated Financial Statements, Investments in Associates and Joint Ventures, Joint Arrangements and Disclosure of Interests in Other Entities* (ED 48 to ED 52).

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

Public Sector Combinations

The IPSASB discussed an Issues Paper on Public Sector Combinations, which considered the classification of public sector combinations.

Combinations Not Under Common Control (NUCC) and Combinations Under Common Control (UCC)

The IPSASB agreed that the primary distinction between public sector combinations should be between those UCC and those NUCC. The IPSASB agreed that the default treatment for combinations UCC is as reorganizations, but that combinations UCC should be treated as acquisitions in the rare cases where this reflects the substance of the combination. The IPSASB used the term “reorganizations” to describe combinations UCC that are not acquisitions to distinguish them, at this stage, from amalgamations. The IPSASB considered that recognition and measurement may differ for reorganizations and amalgamations NUCC and until these issues have been considered, it is important to consider reorganizations and amalgamations separately.

Acquisitions and Amalgamations NUCC

The IPSASB considered whether the factors suggested by respondents to the CP provided a clear basis for determining when one entity in a combination has gained control and the combination therefore meets the definition of an acquisition. The IPSASB agreed that a basket of factors needs to be taken into account in determining whether a combination is an acquisition or an amalgamation. These factors include:

- Whether there is a transfer of consideration;
- Whether a combination is an exchange transaction (this includes, transfers at market price and commercial substance);
- Whether a combination involves a change in sector (additional work on this factor will consider whether a change of economic entity, change of control and/or change of ownership are also relevant); and
- Whether a combination is voluntary or involuntary.

The IPSASB considered that the nature of a jurisdiction, political control and the operation of government are not relevant factors in themselves, but could influence how other factors are applied.

Joint Ventures

The IPSASB will reconsider whether to include the formation of joint ventures in the scope of the project in December 2014.

IPSASB staff member contacts – João Fonseca: joaofonseca@ipsasb.org and Paul Mason: paulmason@ipsasb.org

Strategy

The IPSASB considered an analysis of issues arising from the consultation paper on the IPSASB's strategy and work plan issued in March 2014. Comments on the work plan will be considered in detail at the December 2014 meeting.

Proposed strategic objective

The IPSASB made some minor modifications to the strategic objective proposed in the consultation paper. The revised strategic objective is:

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.

Outcomes and Outputs

The IPSASB discussed responses to the proposed outcomes and outputs. While respondents generally expressed support for these, the IPSASB discussed some possible changes. Staff will bring revised drafting to the December 2014 meeting.

Feedback mechanisms

The IPSASB considered a number of feedback mechanisms, including whether an Interpretations Committee is warranted and the possibility of introducing post-implementation reviews, roundtables and webinars.

The IPSASB recognized that there could be a time when divergent practices might warrant the establishment of an Interpretation Committee. Currently the IPSASB is not persuaded that establishing an Interpretations Committee is the best use of its resources as the need has not been confirmed. There was some agreement that post-implementation reviews might be worthwhile, but the IPSASB would need to establish a policy on when it would be appropriate to carry them out; the target audience; and how to work with other, national, standard-setting organizations. The IPSASB discussed the possibility of holding roundtable events in conjunction with national standard setters. The IPSASB considers that roundtables have benefits, but as they are expensive for both organizers and participants a standard approach is not proposed. They probably work best when the issue is complex and when the IPSASB has already developed its thinking. The possibility of webinars was raised and will be explored along with other uses of technology.

Prioritizing projects

The IPSASB agreed to retain the five key factors proposed in the Consultation Paper: significance for the public sector; urgency of the issue; gaps in standards; IFRS convergence; and alignment with Government Financial Statistics.

Cash-basis IPSAS

The Consultation Paper presented three options: withdrawal of the IPSAS; retention of the Cash-basis IPSAS without further work; or retention and completion of the cash basis IPSAS review. The IPSASB agreed that, as the standard is being used, it should not be withdrawn. A decision on whether to retain the current cash basis IPSAS as is or to complete the review project will be made at the December 2014 meeting as part of the discussion on the Work Plan.

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

Public Sector Specific Financial Instruments

Structure of the Consultation Paper (CP)

The IPSASB considered an Issues Paper and draft chapters of the CP (Introduction and Objective and, Monetary Gold).

The IPSASB agreed that the Introduction and Objective chapter should discuss how this project has evolved in order to communicate why the various topics are included in the CP and their public sector importance.

The IPSASB agreed for the organization of the CP to be as follows:

- Chapter 1: Introduction and Objective;
- Chapter 2: Monetary Gold;
- Chapter 3: Currency and Coin Issued by the Entity;
- Chapter 4: IMF Special Drawing Rights and Other IMF Transactions;
- Chapter 5: Statutory Receivables;
- Chapter 6: Statutory Payables; and
- Chapter 7: Securitizations.

Monetary Gold – Definition

The IPSASB agreed that all components of the definition should be defined (gold bullion, monetary authorities and reserve assets). The IPSASB directed staff to consider further aligning with the definitions in GFS and SNA. The IPSASB also directed that monetary gold should be considered against the existing financial instruments definitions in IPSASs.

Scope

The IPSASB directed that full consideration of the different types of gold and gold instruments should be undertaken, with consideration as to the nature of each type/instrument and the intention or use for which it is held.

Measurement

The IPSASB noted that a measurement objective should be developed for different types of gold, given the different perspective of the users.

The IPSASB further guided staff to be mindful that this is a CP and that conclusions about which concepts are appropriate are not required. The CP should set out reasons for holding gold, measurement objectives and fully discuss options.

Derecognition

The IPSASB again reaffirmed that the CP should not reach conclusions on accounting concepts such as how to treat unrecognized gains and losses on monetary gold if a current value basis is used.

Further work needs to be undertaken on the derecognition point for each stream of transactions; is it the decision to sell or the point of sale?

Disclosures

The IPSASB noted that users' needs should be identified, so that a disclosure objectives can be based on such needs.

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

Social Benefits

Staff presented an Issues Paper and a draft Consultation Paper (CP) on Social Benefits. The discussion focused on new material before addressing the revisions of the material presented at the June 2014 meeting.

Social Contract Approach

The social contract approach is intended to provide a conceptual basis for restricting liabilities to those arising from legal obligations. The IPSASB confirmed that the social contract approach should be included in the CP, largely because of the support that the suggestion of a social contract-based approach received from respondents to the 2008 CP. However, the IPSASB acknowledged that there are difficulties with this approach that will need to be discussed in the CP. These include:

- Recipients of social benefits are individuals and households, not society as a whole.
- The social contract may operate differently for different generational cohorts.
- The social contract may only work if the population of recipients is equal or close to the population of resource providers.
- The approach appears to recognize a liability dependent on its financing.
- The assumption behind this approach is social benefits are going to be paid for by resource providers. This is a contestable assumption that may be difficult to apply in practice.

Social Insurance Approach

The IPSASB agreed that the social insurance approach should only be applicable to contributory schemes, but identified further issues to be addressed. The IPSASB noted that the social insurance approach implied a mixed approach to accounting for social benefits, whereas the other approaches identified in the CP could be applied to all social benefit programs. The Board acknowledged that this may be appropriate.

The IPSASB supported the proposals in the CP for initial recognition under the social insurance approach, and identified a further option to be included. The IPSASB noted that uncertainty regarding future cash flows, and hence the deficit, increased for programs of longer duration. The Board noted that the different treatments reflected different perspectives. These perspectives should be explained in the CP.

The IPSASB agreed the CP should ask respondents whether assumption price or cost of fulfillment should be used as the measurement basis under the social insurance approach, rather than set out a proposal.

The Issues Paper identified circumstances where the contribution made to a social insurance program has different characteristics to the contribution that would be made under an insurance contract. The IPSASB agreed the CP should include criteria for determining whether the social insurance approach meets user needs for financial reporting in these circumstances.

Other Matters

Staff was directed to review the flow of the text in Chapter 2 (social benefit programs) and the relationship with the definitions and classification approach in Chapter 3. The IPSASB supported the provision of the jurisdiction-specific examples in Appendix A (examples of social benefit programs), and agreed that each example should have its own section on the application of the CP.

The IPSASB agreed that the CP should seek to identify the overall presentation objective and ensure disclosures meet user needs.

The IPSASB agreed that Appendix B (Evaluation of Options against the Objectives of Financial Reporting and the QCs) should be extended to include the Conceptual Framework discussion of user needs.

The IPSASB agreed not to include the implications for existing IPSASs in the CP. Consequential amendments will be considered at the ED stage of the project

The IPSASB reviewed the revisions to the chapters considered at the June 2014 meeting (chapter 1 – introduction; chapter 2 – scope and definitions; chapter 4 – identification of approaches; and chapter 5 – option 1: obligating event approach) and proposed further modifications, while indicating general support for the substance of these chapters.

IPSASB staff member contact – Paul Mason: paulmason@ipsasb.org

Governance and Oversight

The IPSASB received an update on the IPSASB Governance Review, from members of the Review Group. An analysis of the responses to the public Consultation Paper was presented. It was noted that the majority of respondents supported establishing a separate monitoring and oversight body for the IPSASB under the auspices of IFAC. The comment letters received are available at <http://www.oecd.org/gov/budgeting/IPSASB-Stakeholder-Comments.pdf>.

The members of the Review Group noted that a meeting was scheduled for September 22nd 2014, where the next steps and further details on governance and oversight would be discussed based on the feedback received from constituents.

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

Next Meeting

The next IPSASB meeting will be held in Toronto, Canada on December 8–11, 2014.