

IPSASB Consultation Paper *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*

AASB Staff Issues Paper

Introduction

- 1 The International Public Sector Accounting Standards Board (IPSASB) issued a Consultation Paper (CP) *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities* in August 2014 and requested comments by 31 December 2014. This issues paper has been prepared by AASB staff with the intention of identifying the main issues and comments that could be made in an AASB submission to the IPSASB in respect of this CP.
- 2 The stated objective of the CP is to seek constituents' views on whether International Public Sector Accounting Standards (IPSASs) are suitable for Government Business Enterprises (GBEs) and other public sector entities.

Background

- 3 At present GBEs are specifically excluded from applying IPSASs by way of the following statement: "This Standard applies to all public sector entities other than Government Business Enterprises." which is contained in IPSASs. Paragraph 10 of the *Preface to International Public Sector Accounting Standards* (see paragraph 3.1 of Agenda Paper 11.4) describes the type of entities for which IPSASs are intended (public sector excluding GBEs) and also makes the explicit statement that GBEs apply International Financial Accounting Standards (IFRSs).
- 4 To enable entities to determine whether or not they are a GBE, a definition is provided at paragraph 7 of IPSAS 1 *Presentation of Financial Statements* (see paragraph 3.4 of Agenda Paper 11.4) and guidance is also provided at paragraph 12 of IPSAS 1 (see paragraph 3.5 of Agenda paper 11.4).

Problems with this approach

- 5 Two key issues have been identified by the IPSASB with this approach. The first issue is that it is not within the IPSASB's authority to state that GBEs apply IFRSs; this is a decision for the regulator in the relevant jurisdiction.
- 6 Secondly, the IPSASB has received feedback that there is diversity with the application of the definition of a GBE that has resulted in some entities being classified as a GBE that do not meet all the criteria identified in the definition. This would result in those entities not applying IPSASs.

Proposed alternate approaches

- 7 To resolve the issues identified above, the IPSASB has proposed two different approaches, each with two options.

Approach 1: Describing the characteristics of public sector entities for which IPSASs are intended

- 8 Approach 1 proposes describing the characteristics of public sector entities for which IPSASs are intended by either:
- (a) using IPSASB's current and developing terminology; or
 - (b) using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance.
- 9 Under Approach 1, GBEs would not be defined.

Approach 2: Modifying the current definition of a GBE in IPSAS 1

- 10 Approach 2 proposes modifying the current definition of a GBE in IPSAS 1 by either:
- (a) clarifying the current definition of a GBE; or
 - (b) narrowing the existing definition of a GBE.
- 11 Under Approach 2, GBEs would continue to be defined.

Approach 1

- 12 Approach 1 is based on the IASB's approach whereby paragraph 9 of the *Preface to International Financial Reporting Standards* communicates the IASB's view of the entities for which it develops IFRSs (see paragraph 4.2 of Agenda paper 11.4).
- 13 Option 1(a) would describe the characteristics of public sector entities in the following way:
- IPSASs are designed to apply to entities that:
- (a) are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;
 - (b) finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.
- 14 This wording is based on current and developing IPSASB literature and reflects the concepts and descriptions in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

- 15 Option 1(b) would utilise a number of terms and explanatory guidance for GFS reporting guidelines.
- 16 The characteristics of a public sector entity would be described as:
- IPSASs are designed to apply to entities that:
- (a) are responsible for the delivery of goods and services to the community or to individual household on a non-market basis and make transfer payments to redistribute income and wealth;
 - (b) finance their activities, directly or indirectly, mainly by means of taxes, contributions and/or transfers from other levels of government.
- 17 A description of GFS terms: “economically significant prices”, “market producers”, “non-market producers”, “public corporation”; would also be provided (see paragraph 6.14 of Agenda paper 11.4).
- 18 Under Option 1(b) it would be considered that IPSASs would be applicable to a public sector entity within the general government sector (GGS) and that public sector entities outside the GGS would apply IFRSs or other standards for commercially-oriented entities.

Approach 2

- 19 Option 2(a) proposes to clarify the definition of a GBE. The revised definition of a GBE would be an entity that:
- (a) has been assigned the financial and operational authority in legislation or governance to carry on a business;
 - (b) delivers services, in the normal course of its business, to individuals and non-government organizations as well as other public sector entities outside the reporting entity at a profit or to achieve recovery of all fixed and variable costs of the reporting period;
 - (c) is not reliant on continued government funding to be a going concern (other than purchases of outputs at arm’s length); and
 - (d) is controlled by a public sector entity.
- 20 There would also be supporting guidance to indicate that a GBE would usually contract in its own name, however this would not be a requirement to meet the definition of a GBE.
- 21 Option 2(b) proposes to narrow the current definition of a GBE. Under this option the revised definition of a GBE would be an entity that:
- (a) has been assigned the financial and operational authority in legislation or governance documentation to carry on a business;

- (b) delivers goods and services, in the normal course of its business, to individuals and non-government organizations as well as other public sector entities with a profit-oriented objective;
- (c) can prepare its financial statements on a going concern basis without being reliant on any continuing government funding or other forms of direct or indirect financial support from government (other than purchases of outputs at arm's length). Such funding or financial support includes concessionary loans, government guarantees and grants for meeting community service obligations; and
- (d) is controlled by a public sector entity.

22 The CP states that the differences between Options 2(a) and 2(b) are that:

- (a) Option 2(b) would be limited to entities with a profit-seeking objective therefore entities with an objective of full-cost recover would not be classified as a GBE; and
- (b) the criterion of non-reliance on continuing government funding would be strengthened by relating it to the going concern principle in the context of financial statements.

IPSASB Preliminary View (PV)

23 The IPSASB has a unanimous view that Approach 1 is the most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended. Within Approach 1 a majority of IPSASB members support option (a) because it is a high-level, principles approach that draws on current and developing IPSASB literature. Further, it acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSASs.

Preliminary AASB Staff View

24 The CP has asked for comments on two Specific Matters for Comment (SMC):

SMC 1 – Do you agree with the IPSASB's PV? If so, do you prefer Option 1(a) or Option 1(b)? Please give the reasons for your view.

SMC 2 – If you do not agree with the IPASB's PV, please indicate whether you support Option 2(a) or Option 2(b) in Approach 2 or identify an alternative approach. Please give the reason for your view.

25 AASB staff agree with the IPSASB's PV that Approach 1 is the most appropriate approach. This is because staff consider that it is not within the IPSASB's mandate to state that GBEs apply IFRSs, this is the role of the relevant jurisdictional regulator.

26 Regarding the choice between Options 1(a) and 1(b) AASB staff are aware of two potentially conflicting objectives of the IPSASB, these being to:

- (a) converge with IFRS as much as possible; and

- (b) reducing unnecessary differences between IPSASs and GFS reporting guidelines.
- 27 Although option (a) is not a convergence with IFRS, it is a convergence with the approach taken by the IASB, whereby a description of the characteristics of the type of entity for which the standards are intended, is provided. However, option (b) would reduce differences between IPSASs and GFS.
- 28 Nevertheless, AASB staff consider that option (b) does have disadvantages, these being:
- (a) GFS terminology is not generally well understood by constituent, unlike the terminology that would be used in option (a); and
 - (b) The IPSASB would be reliant on third party literature and any change to the GFS reporting guidelines would be outside the IPSASBs control. Therefore, if these guidelines changed then the wording in the IPSAS *Preface* would also need to change.
- 29 Overall, AASB staff agree with the majority of IPSASB members in that Option 1(a) is the most appropriate option to implement.

Question 1 to the Board

Does the Board agree with the AASB staff view made at paragraph 29 that Approach 1(a) – Describing the characteristics of public sector entities for which IPSASs are intended by using IPSASB’s current and developing terminology – is the appropriate option to implement?

Question 2 to the Board

If the Board does not agree with the AASB staff view made at paragraph 29, which option does the Board consider the IPSASB should implement 1(b), 2(a) or 2(b) and why?