

## MEETING HIGHLIGHTS

December 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.

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### Interests in Other Entities

IPSASB approved five standards:

- IPSAS 34, *Separate Financial Statements*;
- IPSAS 35, *Consolidated Financial Statements*;
- IPSAS 36, *Investments in Associates and Joint Ventures*;
- IPSAS 37, *Joint Arrangements*; and
- IPSAS 38, *Disclosure of Interests in Other Entities*.

The main decision made at the December 2014 meeting was to require disclosure of controlling interests in other entities that were acquired with the intention of sale or disposal in IPSAS 38. This change was made in response to feedback from constituents.

The standards will be issued in January 2015, with an effective date of January 1, 2017.

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### First-time Adoption of Accrual Basis IPSASs

The IPSASB considered the text of the transitional exemptions and provisions in the proposed IPSAS on *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* that address the transitional exemptions and provisions in in IPSASs 34-38 (see above, approved earlier at the December 2014 meeting). The IPSASB agreed with the proposed exemptions and provisions that will replace the exemptions and provisions in IPSAS 6, *Consolidated Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*.

The IPSASB then conducted a page-by-page review of the proposed IPSAS on *First-time Adoption of Accrual Basis IPSASs* that incorporated the amendments and additional exemptions and provisions agreed at its September 2014 meeting.

Following some minor amendments, the IPSASB formally approved the final pronouncement for publication as IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*. IPSAS 33 will be published in early 2015.

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## Reporting Service Performance

The IPSASB provided direction on issues related to the draft Recommended Practice Guide (RPG), *Reporting Service Performance Information*. The IPSASB directed that staff should:

- (a) Revise the RPG's proposed coverage of economical use of resources;
- (b) Align the order in which the different presentation decisions are addressed in the RPG with the order in the Conceptual Framework's Chapter 8, which addresses presentation in general purpose financial reports; and
- (c) Revise the RPG's approach to identification of information for display and disclosure.

The IPSASB then carried out a page-by-page review of the RPG and identified further revisions.

The next step is for staff to revise the draft RPG, which will be considered at the IPSASB's March 2015 meeting with a view to approval.

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## Social Benefits

The IPSASB provided directions on the substantive points below and agreed a number of detailed changes.

### *Chapter 1 – Introduction*

The IPSASB agreed to replace the text on the qualitative characteristics (QCs) with a cross reference (in Chapter 1) to the detailed analysis of the approaches and the QCs in Appendix B. The IPSASB decided that a cross reference would be more useful for the readers of the Consultation Paper (CP).

### *Chapter 2 – Social Benefit Programs; Chapter 3 – Scope and Definitions; and Appendix A – Examples of Social Benefit Programs*

The IPSASB acknowledged that Chapter 2 may be difficult for readers unfamiliar with Government Finance Statistics (GFS). The IPSASB provided guidance to staff on making the chapter easier to understand. As a result of their review of Chapters 2 and 3, the IPSASB also directed that:

- It is appropriate to adopt the narrower scope in GFS. This is consistent with the IPSASB's policy on alignment with GFS, which needs to be made more explicit;
- The drafting should clarify that all social benefits are risk-based. Programs that do not address social risks are not social benefit programs, but rather ongoing activities of government;
- The drafting should provide a better road map for readers of the CP;
- Having a definition of "social insurance" in Chapter 3 and the "social insurance approach" in Chapter 7 may be confusing for readers of the CP. The Board therefore agreed to rename option 3 the "insurance approach; and.

- Chapters 2 and 3 should be combined.

The IPSASB agreed that the specific examples in Appendix A on application of the approaches were helpful and should all be retained.

#### *Chapter 4 – Identification of Approaches*

The IPSASB agreed to seek respondents' views on the advantages and disadvantages of each approach, rather than just which approach is supported. The IPSASB also acknowledged that a combination of approaches might be supported, dependent upon the characteristics of particular programs. Specific Matter for Comment (SMC) 3 should ask which approach or combination of approaches is supported.

#### *Chapter 5 - Option 1: Obligating Event Approach*

The IPSASB considered that the distinctions between sub-options (a) a legal liability exists; (b) all eligibility criteria have been met; and (c) amounts become due and payable were not sufficiently clear. The IPSASB directed staff to revise the drafting of these sections.

#### *Chapter 6 - Option 2: Social Contract Approach*

The IPSASB directed staff to consider whether a variant of the social contract approach that recognized due and payable obligations only as liabilities should be referred to in the CP.

#### *Chapter 7 – Option 3: [Social] Insurance Approach*

The IPSASB discussed the example provided in the CP. The IPSASB agreed that the example should illustrate the entries in the statement of financial position as well as the statement of financial performance.

#### *Chapter 8 – Presentation and Chapter 9 - Social Security Funds, Composite Programs and Other Issues*

The IPSASB agreed to remove Chapters 8 and 9. The presentation objective will be reworked into an overall project objective and included in Chapter 1. Staff will consider what material from Chapter 9 needs to be retained and where this could best be located.

#### *Appendix B: Evaluation of Options against the Objectives of Financial Reporting and the QCs*

The IPSASB agreed to include an assessment of how well the options meet users' reporting needs in Appendix B.

#### *Concluding remarks*

The IPSASB intends to approve the CP at its March 2015 meeting, for publication in April 2015. The IPSASB will consider at this point whether the consultation period should be four months or six months.

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## **Public Sector Combinations**

The IPSASB discussed an Issues Paper on Public Sector Combinations (PSCs). The Issues Paper considered the classification of PSCs and the rationale for distinguishing between PSCs under common control (UCC) and those not under common control (NUCC).

#### *Combinations UCC - Reorganizations*

The IPSASB was generally supportive of staff's proposal regarding reorganizations. Nevertheless, IPSASB did not consider the wording *autonomous* and *risks and rewards* appropriate, but instead agreed that the

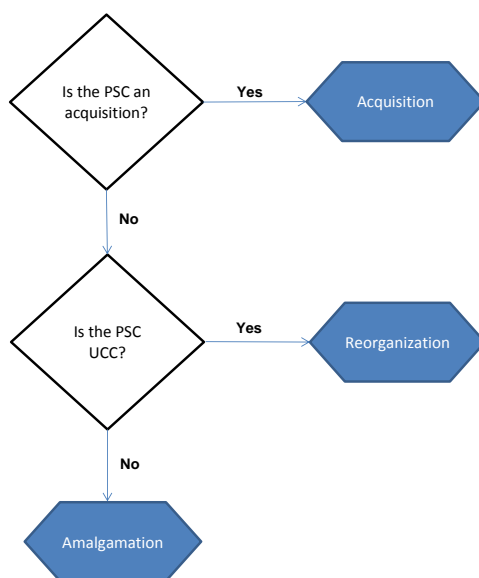
emphasis should be on control and the guidance in IPSAS 35 (see above, approved earlier in the December 2014 meeting).

### *Combinations NUCC – Amalgamations*

The IPSASB supported the view that an amalgamation does not involve an exchange.

The IPSASB agreed not to consider whether transferor accounting needed to be included at this stage, but considered that the definitions could be simplified in the future ED.

The IPSASB agreed the following sequence of decisions as the basis for classifying PSCs:



The IPSASB indicated that donations of operations should not be considered as combinations under this project, but rather should be accounted for under IPSAS 23. Nationalizations should be treated as acquisitions if that is the substance of combination.

### *Definitions*

The IPSASB decided to adopt the minimum definitions possible when identifying the parties and the operations involved in the combination. The IPSASB supported the following definitions as a good starting point:

- A **reorganization** is a public sector combination under common control;
- An **acquisition** is a public sector combination not under common control in which an entity exchanges value to gain control of an operation;
- An **amalgamation** is a public sector combination not under common control that is not an acquisition;

Given the decisions taken on classification of PSCs, the definitions included in the issues paper were not discussed.

The IPSASB agreed that the exchange value term in an acquisition definition is wider than the definition of an exchange transaction used in IPSAS 23, and includes some non-exchange transactions. The meaning of "exchange value" would need to be explained in guidance.

The IPSASB decided to retain reorganizations and amalgamations at this stage, but to reassess this decision at the March 2015 meeting. This may lead to a single classification covering both amalgamations and reorganizations, with any differences addressed in the accounting treatment.

#### *Measurement*

The IPSASB decided to use fair value as the measurement basis for acquisitions, as the term is defined in IPSASs.

The IPSASB supported the staff recommendation that the acquisition method include the recognition of goodwill encompassing both the generation of cash inflows and reduction in net cash outflows.

The IPSASB supported the staff recommendation to adopt the modified pooling of interests method when accounting for reorganizations and amalgamations. Some members supported the use of fresh-start accounting for amalgamations where it may be impracticable to apply the modified pooling of interest approach, for example where entities have very different accounting policies or have previously used cash accounting.

The IPSASB will reconsider the provision of comparative information in respect of amalgamations and reorganizations at later meetings.

#### *Joint Ventures*

The IPSASB decided to maintain the CP's scoping out of joint ventures due to their complexity.

#### *Terminology*

With the exception of replacing recipient with acquirer, the IPSASB agreed to retain the terms used in the CP.

#### *Presentation Objectives*

The IPSASB decided that presentation objectives should follow the objectives of the standard and reflect the economic nature of each class of combination.

#### *Directions to Staff*

The IPSASB directed staff to develop an ED that only addresses mainstream PSC transactions. Other types of PSC should be left to professional judgment.

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## **Strategy and Work Program**

Responses to the IPSASB's consultation on its strategy were very supportive of the proposed strategic objective for 2015 forward and the IPSASB confirmed the final wording as follows:

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

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

To meet this strategic objective the IPSASB has identified the outcome it seeks to achieve. The IPSASB confirmed that the outcome is:

**That decision-making and accountability of public sector entities are improved and global fiscal stability and sustainability are enhanced by credible and transparent financial reporting that results from the adoption of accrual-based IPSASs.**

To achieve this outcome the IPSASB will be focused on delivering the following outputs, which were strongly supported by stakeholders:

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

The IPSASB discussed the status of the Cash Basis IPSAS and the approach to be taken. Generally there was a sense that there is some need for the Cash Basis IPSAS and that the IPSASB should therefore respond to this. In order to ensure that the Cash Basis IPSAS is fit for purpose as a tool to assist in the journey to adopting accrual IPSASs, the IPSASB agreed that a project on reviewing the Cash Basis IPSAS should be added to the work program. The IPSASB stressed the importance of aligning the Cash Basis IPSAS with the transitional relief provided in IPSAS 33, *First-Time Adoption of Accrual IPSASs*, signaling clearly that the Cash Basis IPSAS should be considered an interim step only. Staff will prepare a project brief for the March 2015 meeting that outlines a potential limited scope project to address major issues.

For the work program and project priorities, the IPSASB noted stakeholders' views that the IPSASB should focus on public sector specific projects as well as maintaining the existing IPSASs. In that context, many respondents commented on the continued importance of IFRS convergence.

The IPSASB identified a number of projects that are "must-do" projects over the period 2015-2019, all of which are public sector specific projects. These are:

- Non-exchange expenses;
- Revenues – exchange and non-exchange;
- Measurement – public sector specific;
- Heritage assets; and
- Infrastructure assets.

Important projects to maintain existing IPSASs include:

- Employee benefits;
- Leases; and
- Presentation of financial statements.

Staff will prepare summarized project briefs for each of these projects for the March 2015 meeting to assist the IPSASB in considering the interrelationships between the must-do projects and possible sequencing options for addressing them. The briefs will include scoping, the end goal and the options for timing. For the maintenance projects, staff were asked to also consider areas of possible divergences and how they might be addressed expeditiously.

The completion of the Conceptual Framework has also resulted in the need to undertake work on some IPSASs to reflect changes to the Framework, for example the qualitative characteristics in IPSAS 1. Staff were directed to consider these in coming forward with additional project suggestions and approaches at the March meeting.

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## **Emissions Trading Schemes**

Staff provided the IPSASB with an education session on the Emissions Trading Schemes (ETSs) project. The session described the context for this project, recent developments and the financial accounting practices that have been identified so far. IPSASB staff are gathering information on (a) different types of ETSs and (b) financial reporting by both ETS participants and administrators.

The IPSASB noted that phase 1 of the project involves development of a Consultation Paper (CP) working collaboratively with International Accounting Standards Board (IASB) staff. IASB staff will be developing a Discussion Paper as part of the IASB's research program. The collaborative approach will support a comprehensive discussion of participants' accounting issues in the two different papers. The IASB project will focus exclusively on ETS participants' accounting. IASB staff member Ms. Jane Pike attended the meeting and described developments with respect to the IASB ETSs project.

The next step is for staff to further research the topic and develop an issues paper, which will be submitted to the IPSASB's March 2015 meeting.

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## **Improvements**

The IPSASB reviewed responses to Exposure Draft 55 (ED 55), *Improvements to IPSASs 2014*, and approved the final pronouncement *Improvements to IPSASs 2014*.

The IPSASB agreed that future improvements projects should combine improvements derived from IASB standards with other general non-IASB improvements to engage a greater number of constituents and increase the quantity of respondents.

Staff presented a review of responses received, including edits to the amendments proposed in ED 55, based on feedback from respondents. The IPSASB agreed with the changes.

The IPSASB completed a page-by-page review of the draft final pronouncement of *Improvements to IPSASs 2014*.

The IPSASB approved the final pronouncement *Improvements to IPSASs 2014*.

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## **Public Sector Specific Financial Instruments**

*Structure of the Consultation Paper (CP)*

The IPSASB discussed the structure of the CP and agreed with a TBG proposal to re-order the chapters as follows:

Chapter 1: Introduction and Objective;

Chapter 2: Currency and Coin Issued by the Entity;

Chapter 3: Monetary Gold;

Chapter 4: IMF Special Drawing Rights and Other IMF Transactions;

Chapter 5: Statutory Receivables;

Chapter 6: Statutory Payables; and

Chapter 7: Securitizations.

#### *Monetary Gold – Definitions*

The IPSASB discussed the proposed definitions of monetary gold, monetary authority and reserve assets.

The IPSASB directed that further development of the monetary authority definition be considered and that further supporting discussion be added for all definitions.

The IPSASB directed that the service delivery objectives of central banks holding monetary gold be emphasized and discussed.

#### *Scope*

The IPSASB agreed that it is helpful to aim for consistency with the Government Finance Statistics Manual definitions to the extent possible. However, the IPSASB would have leeway in developing accounting treatments.

Further, the IPSASB reiterated that the analysis of monetary gold assets needed to be further developed to consider the purity of gold assets and the purpose for which they are held by monetary authorities.

#### *Measurement*

The IPSASB noted that the purpose for which monetary gold assets are held impacts whether an entry value or exit value is the most appropriate measurement basis.

The IPSASB directed that the CP should present options and get feedback from constituents. Currently the draft chapter only presents one option, which is measurement at market value—in an open and active market; a measure of financial capacity. However, the IPSASB agreed that monetary gold may be held for reasons other than financial capacity and further options should be considered and developed for inclusion in the CP.

The IPSASB noted that there are limited suitable measurement bases in the Conceptual Framework, with only market value and historical cost appearing appropriate (given the nature of monetary gold replacement cost or value in use would not be considered appropriate).

#### *Accounting for transaction costs and changes in value of monetary gold*

The IPSASB directed staff to further develop options for accounting for transaction costs and changes in the value of monetary gold and to include specific matters for comment on these issues. Concerns were raised on coming to conclusions on appropriate approaches at the CP stage.

#### *Disclosures*



The IPSASB noted that the disclosure objective presented was more of an overall project objective and could be relocated to the beginning of the chapter.

Further, the IPSASB noted that at the CP stage, it is difficult to determine information for disclosures, given decisions in regards to recognition and measurement are still open. However, the IPSASB still believes that asking constituents about users' information needs, is important for the development of requirements for disclosures.

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## **Next Meeting**

The next IPSASB meeting will be held in Santiago, Chile on March 10–13, 2015.