

15 December 2014

To: New Zealand External Reporting Board
New Zealand Accounting Standards Board
Chartered Accountants Australia and New Zealand
New Zealand IPSASB Consultative Group
Financial Reporting Council

From: Ken Warren – IPSASB Member

IPSASB MEETING – December 2014

Introduction

The fourth IPSASB meeting for 2014 was held in Toronto, on 8-11 December. This report provides an overview of the meeting, including strategic matters. The appendix to the report records progress on technical topics.

This was very much a “business as usual” meeting with most agenda items relating to projects that have been underway for some time. Two lengthy projects were completed, with the approval of standards on first-time adoption and interests in other entities (dealing with consolidation etc). As this is my last report as the New Zealand IPSASB member, I’ve included a bit more background than usual to recap progress on projects over the last few years.

I would also like to take this opportunity to thank readers for their interest and positive comment on these reports. Despite the jet lag involved, I have thoroughly enjoyed my time on the Board. Not only have I established friendships, and learnt from the diversity of views, but I have taken immense satisfaction from what I believe is very important work – as I said at my farewell to the Board, civilisation requires stable, sustainable and accountable government, which in turn requires responsible fiscal decision-making, and a good financial information base to support those decisions and that accountability. I take great satisfaction in having played a small role toward such a big goal.

Oversight and Governance

The Review Group has issued a summary of responses to the 2014 public consultation on governance. The report is entitled *Public Consultation on the Future Governance of the International Public Sector Accounting Standards Board (IPSASB): Summary of Responses* (October 2014) and is available at <http://www.oecd.org/gov/budgeting/IPSASB-Consultation-Summary.pdf>

Respondents generally agreed with the proposed remit of the monitoring and oversight bodies and a number expressed a preference for single governance body that promotes the public interest in standard setting activities.

A meeting of the IPSASB Governance Review Group and interested parties (including Faye Choudhury and Andreas Bergmann) was held in Paris on 22 September 2014 to discuss responses from the consultation paper and the way forward. In line with comments from respondents, the recommendation of the chairs of the Review Group was to establish a single monitoring and oversight body.

Brian Quinn from the World Bank provided the IPSASB with an update on governance arrangements. There are still a few things being addressed. These include:

- Legal issues: Members (i.e. IMF, world Bank and OECD) have been testing to confirm proposed oversight roles and responsibilities don't conflict with the articles of association of their organisations. Some have completed this process and others are still waiting for legal confirmation.
- Name: There is still some discussion about whether the review body should be referred to as a Public Interest Oversight Committee or a "monitoring and oversight" committee.
- G20: A final step in the process will be to formally advise the G20 of the proposed arrangements.

Once these final steps have been taken the group will come together next year and should be operational almost immediately.

The IPSASB is also planning to set up a Consultative Advisory Group. There will be a call for nominations next year.

MoU with IASB

In November 2011 the IASB and IFAC announced an agreement to strengthen their co-operation in developing private and public sector accounting standards. This MoU is now due for review.

The new version is expected to be a bit shorter and will be an agreement between IFAC and the IFRS Foundation. It is no longer expected to say that IFAC and the IASB will discuss future institutional and governance arrangements for public sector standard setting. The liaison meetings between the IASB and the IPSASB will continue.

EPSASs

The PwC study that I referred to in my report on the September meeting has since been released by the European Commission. The study is entitled *Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards* (August 2014) and is available at:

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/EP_SAS-study-final-PwC-report.pdf

The Federation of European Accountants (Fédération des Experts-comptables Européens, FEE) has also published a paper offering an overview of the European Commission's initiative to develop EPSAS. The paper outlines FEE's preference for the use of IPSASs rather than the development of EPSASs, but also explains the conditions under which FEE considers that EPSASs might be workable.

The IPSASB received an update from Graham Lock from Eurostat. The European Commission is still planning to issue a 'Communication regarding EPSAS' but it won't be until next year. The internal taskforce has started talking about first-time adoption issues. Regular meetings of the taskforce will continue to be held next year.

Accountability. Now.

The IPSASB received a presentation by Alta Prinsloo, Executive Director, IFAC’s Strategy and Chief Operating Officer, on the *Accountability.Now.* initiative. This is an awareness campaign designed to raise awareness of the need for greater transparency and accountability in public sector financial management. At the core of this initiative is the drive for governments and public sector entities to implement robust and effective accrual-based financial reporting systems, such as those based on IPSASs.

As part of this initiative IFAC has posted a number of “viewpoints” on its website. For example:

- *Accountability. Now. We Must Enhance Government Accountability and Transparency* by the Chair of the IPSASB, Andreas Bergmann; and
- *Beyond Enhanced Reporting—The Next Step in Public Sector Financial Management* by me.

I was present at the World Congress this year and, together with a number of other IPSASB Board members was involved in sessions considering the issues faced by governments in adopting accrual accounting and the benefits of accrual information.

The initiative also has a more practical aspect in that it aims to encourage the development of technical capacity. As part of this capacity building IFAC works in conjunction with other organisations including development banks and the International Monetary Fund.

Attendance and Membership

All members were present. This was my last meeting. Angela Ryan, NZASB Board member and Principal Accounting Advisor, The Treasury, will be the New Zealand member from the beginning of next year. Angela will be supported in this role by XRB staff (Todd Beardsworth, Director Accounting Standards and Aimy Luu Huynh Project, Manager Accounting Standards). I’ve enjoyed my time as an IPSASB member and wish Angela all the best.

This was also the last meeting for Ron Salole, Deputy Chair (Canada), Thomas Müller-Marqués Berger (Germany) and Guy Piolé (France). Next year there will be three new members, being Angela, Michel Camoin (France) and Rod Monette (Canada).

Meeting Overview

Technical Items	Decisions/ Feedback
3 Interests in Other Entities	Approval of standards
4 First-time Adoption of IPSASs	Approval of standard
5 Reporting Service Performance	Review of draft RPG
7 Social Benefits	Review of draft Consultation Paper
8 Public Sector Combinations	Discussion of issues
9 Strategy and Work Plan	Approve
10 Emissions Trading Scheme	Education session
11 Annual Improvements	Approval of amendments
12 Public Sector Financial Instruments	Review of draft Consultation Paper

The agenda papers are available at <http://www.ifac.org/public-sector/meetings>.

More detail on individual agenda items is set out in the Appendix to this report. In addition, the Appendix contains a quick update on other IPSASB projects and what is likely to happen with them.

The following pronouncements were approved at the meeting:

- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*
- IPSAS 34, *Separate Financial Statements*
- IPSAS 35, *Consolidated Financial Statements*
- IPSAS 36, *Investments in Associates and Joint Ventures*
- IPSAS 37, *Joint Arrangements*
- IPSAS 38, *Disclosure of Interests in Other Entities*
- Improvements to IPSASs 2014.

The Conceptual Framework which was approved in September is available on the IPSASB website. Hard copies are also being printed and will be available soon. If you downloaded an early version you might be interested in the zmag version that is now available.

There is one consultation document open for comment:

- CP *The Applicability of IPSASs to GBEs and other Public Sector Entities* (August 2014, comments due 31 December 2014).

February 2015 Seminars

The Chairman, Andreas Bergmann, will be in New Zealand in the first week of February next year. Andreas and I will be presenting seminars on the conceptual framework in Auckland and Wellington. Registration details for these seminars will be available on the XRB website early next year.

2015 Meetings

The dates and locations for the IPSASB's 2015 meetings are as follows:

- March 10 - 13, 2015 Santiago, Chile
- June 23 - 26, 2015 Toronto, Canada
- September 22 - 25, 2015 Toronto, Canada
- December 8 - 11, 2015 Toronto, Canada.

APPENDIX

PROGRESS ON OTHER TECHNICAL MATTERS

Agenda Item 3: Interests in Other Entities

In 2011 the IASB issued new standards dealing with accounting for control, joint control and significant influence. These standards were IFRSs 10-12, IAS 27 (2011) and IAS 28 (2011).

The IPSASB's project is an update of IPSASs 6 to 8, based mostly on the IASB's standards, together with some relevant public sector modifications. There was a lot of debate in the earlier stages of the project about whether to provide exemptions from consolidation for certain types of entities. The IPSASB has stuck with the principle of requiring consolidation for controlled entities, although it has acknowledged, in the Basis for Conclusions, the practical difficulties that governments with large numbers of controlled entities can face. Given that there are a number of countries applying IPSASs for whom harmonisation with statistical reporting is important, the IPSASB has also considered this in developing the standards.

Five EDs were issued in October 2013. Generally respondents were supportive of the IPSASB's proposals. At the last two meetings the IPSASB has been considering comments from respondents and working through changes to the draft standards. At this meeting five new IPSASs, being IPSASs 34 to 38 were approved. They are expected to be issued in January next year.

The main decision made at the meeting was to require disclosure of controlling interests in other entities that were acquired with the intention of disposal. This disclosure was added in response to feedback from constituents on the EDs.

The NZASB is expected to consider the adoption of these new standards in PBE Standards early next year. For New Zealand PBEs, I wouldn't expect that adoption of these standards would result in widespread change.

Agenda Item 4: First-time Adoption of IPSASs

The objective of this project has been to develop a standard dealing with first-time adoption issues. An ED was issued in October 2013. At recent meetings the IPSASB has been working towards finalising the standard. IPSAS 33 was approved at this meeting and is expected to be issued in January next year.

There are two types of relief in the standard:

- Relief which is similar to IFRS 1. Entities can use these provisions and still assert compliance with IPSASs; and
- Relief from fundamental aspects of standards. Examples are not recognising all assets, using previous accounting policies for taxes, and not consolidating controlled entities. These provisions are intended to encourage governments and other entities to adopt IPSASs. They are limited to 3 years. An entity can't assert compliance with IPSASs while it is using these provisions. It can only assert compliance with this specific standard.

Although I'm very pleased that this standard has been issued, as it fills a gap in the suite of IPSASs, it won't have any immediate impact for New Zealand. There are two New Zealand specific standards

that guide the adoption of PBE Standards (being PBE FRS 46 and PBE FRS 47). The more generous three year provisions are not something that we would regard as appropriate in New Zealand, but, they have previously been available in some IPSASs, and the IPSASB considered that they were an important aspect of encouraging the adoption of IPSASs.

Agenda Item 5: Reporting Service Performance

This long-standing project to develop a Recommended Practice Guide (RPG) on reporting service performance information is getting close to completion. As the title suggests, RPGs are not mandatory.

The draft RPG establishes some general principles for service performance reporting. It acknowledges that entities might be preparing output-focused reports or outcome-focused reports and attempts to allow for a range of approaches. Because service performance reporting varies widely across jurisdictions and is constantly evolving it has been hard for the IPSASB to put a stake in the ground about what constitutes good reporting. Although this “underlying principles approach” is more general than the requirements you might see in a specific jurisdiction, I think it will provide some sensible guidance and be a useful document.

The IPSASB has been clear that it is developing guidance for service performance reports that are general purpose financial reports of *an entity*. The IPSASB is aware that other cross-sector or cross-entity reports are produced, but these other forms of service performance reporting are not within its mandate.

The final RPG should be issued next year.

Agenda Item 7: Social Benefits

This must be one of the oldest projects on the agenda. Back in 2003 the PSC published an Invitation to Comment *Accounting for Social Policies of Government*. The IPSASB subsequently worked on developing standards-level guidance but struggled with this. Eventually (in 2008) it issued a disclosure-only ED and sought feedback on the recognition and measurement issues in a Consultation Paper. It was also at that point that the IPSASB decided to develop an RPG on *Long-term Fiscal Sustainability* as this was seen as addressing one aspect of the problem.

The IPSASB agreed to defer work on this project until the Conceptual Framework, and particularly the definition of a liability, were closer to being finalised. The project was reactivated this year with the intention of issuing a Consultation Paper.

At this meeting the IPSASAB provided feedback on a draft Consultation Paper. The IPSASB had given staff directions that it wanted to align with GFS classifications as much as possible. It was only at this meeting that some members realised the implications of this, as the GFS definition of social benefits is linked to the GFS definition of social risks. Social benefits under GFS is therefore narrower than what many of us commonly think of as social benefits. However, it was interesting to note that what is regarded as a social benefit varies between countries with some countries being more familiar with the GFS approach. I’m not sure whether the IPSASB will end up relying solely on the GFS classifications in determining the scope of the project, but at least it will try to be clear about any differences between its approach and the GFS approach. The scope of this project could have

implications for any future project on non-exchange expenses. The more things that are covered under this project, the fewer that would be covered under non-exchange expenses and vice versa. I would expect that this Consultation Paper will be issued next year.

The Consultation Paper will seek respondents' views on three broad approaches to accounting for social benefits. The Consultation Paper will consider the three approaches in detail, and assesses them against the objectives of financial reporting and the qualitative characteristics that are set out in the Conceptual Framework.

Option 1: The obligating event approach

This approach considers social benefit programs by reference to the definitions of a liability in the Conceptual Framework. Under this approach, obligations to pay social benefits are seen as no different (in principle) than other obligations. Under this approach, the key debate is about when a present obligation arises. The draft CP currently identifies five scenarios in which a present obligation for social benefits may arise – although the Board may continue to have some debate as to whether the first three are in fact different:

- (a) A present legal obligation exists;
- (b) All eligibility criteria have been met (with the present obligation not extending past the next revalidation point);
- (c) Amounts become due and payable;
- (d) Threshold eligibility criteria have been satisfied; or
- (e) Key participatory events have occurred.

Option 2: Social contract approach

This approach acknowledges, as commitments, both:

- (a) Public sector obligations to provide goods, services and cash transfers to individuals or households; and
- (b) The rights of individuals or households to receive those benefits.

It also acknowledges that these commitments are balanced by the ongoing duty of individuals or households to contribute taxes and that other sources of finance effectively offset such obligations.

There is a social contract between the state and the citizens such that citizens agree to pay taxes to enable the state to provide social benefits. This is analogous to an executory contract, where an entity would not recognize a liability until the counterparty to a contract had performed their obligations. Under this approach, present obligations only arise once legal entitlements are established.

This approach may lead to the development of disclosures of risks to the social contract, such risks including intergenerational inequity for example.

Option 3: Insurance approach

This approach considers that at least some social benefit programs are similar in practice to insurance contracts. As such, it may be appropriate to use an insurance accounting model when accounting for these programs. The social insurance approach could be applied to contributory

programs, where future contributions are compared to future payments to recipients and the net present value of the program is shown in the statement of financial position. This approach recognises a present obligation to pay benefits at the point that coverage begins. The approach also recognises a right to future receipts resulting from the provision of that coverage. Complex issues arise under the social insurance approach in respect of partially subsidised programs and significant changes to the terms of programs.

Agenda Item 8: Public Sector Combinations

This is another project that has a long background (but not quite as long as social benefits). It was started back in 2008 and an ED was issued in 2010. The 2010 ED was based on IFRS 3 *Business Combinations* and the proposed scope was limited to exchange combinations, with the intention of developing a separate ED for non-exchange combinations. For various reasons this proposal wasn't well received. The problem for the public sector is that most combinations are restructurings where there may be no consideration or where entities are directed to combine. After looking at responses to the 2010 ED the IPSASB decided it had to consider all types of combinations before developing standards.

The IPSASB subsequently issued a Consultation Paper in 2012 that proposed different methods of accounting for different types of combinations (including acquisitions and amalgamations). The proposals in the 2012 Consultation Paper were quite detailed. The project was deferred for a while because of staff changes but has since recommenced. Staff have been going back over the responses to the 2012 Consultation Paper with a view to developing an ED and issuing an ED in 2015.

At this meeting feedback was being sought on a range of issues with a heavy focus on the criteria for classifying types of combinations. The Board is making progress but it has been a slow process.

Current thinking is that there will be three types of combinations:

- Reorganisations: Under common control. Accounted for using the modified pooling of interests method. Treat differences arising as ownership distributions or ownership contributions;
- Amalgamations: Not under common control. Accounted for using the modified pooling of interests method. Recognise differences in equity;
- Acquisition: Not under common control. Accounted for using the acquisition method, and using fair value. The term fair value will continue to be used in developing this ED, pending a project on measurement which will look at the implications of the Framework for all standards.

The Board will consider further whether it really needs to make a distinction between reorganisations and amalgamations. Staff had proposed some variations in the accounting treatment for reorganisations and amalgamations (being modified pooling of interests) but the Board is not yet convinced that this would require separate definitions. The Board discussed circumstances in which fresh start accounting might be easier for preparers than modified pooling of interests. The Board has not yet formed a firm view on the need for prior period information. The key message from the Board was to focus on the main types of circumstances that arise, as attempts to deal with every possible scenario would delay progress and could lead to an unwieldy standard.

Obviously these aren't final decisions, but they do give an indication of where the IPSASB is heading. As to whether there will be one ED or two, the IPSASB hasn't formed a view on that yet.

In some ways this issue isn't as critical for New Zealand as it might be for some other jurisdictions. We do have PBE IFRS 3 *Business Combinations* as part of our PBE Standards. However, we don't currently have any guidance on combinations under common control (an example would be the proposed amalgamation of Wellington local authorities) as this is outside the scope of IFRS 3 (and PBE IFRS 3). The IASB has a research project on combinations under common control.

Agenda Item 9: Strategy and Work Plan

Comments on the *IPSASB Strategy Consultation* (issued March 2014) were due at the end of July. In September the IPSASB considered responses on its strategy (including its outputs and outcomes). At this meeting the IPSASB considered responses on which projects should be added to the work program. The strategic objective, outcome and outputs are as follows.

Strategic Objective

Strengthening public sector 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.

Outcome

That public sector decision-making and accountability 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.

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.

Cash Basis Standard

Feedback about the role of this standard continues to be mixed. Some people regard it as a useful stepping stone to accrual accounting. Others don't think it serves any useful purpose and is a disincentive for countries to move to accrual accounting. The Board has agreed to do more work on this standard. A project brief will be considered in March next year.

New Projects

The factors used to assess project priorities in relation to the accrual IPSASs were:

- (a) Significance for the public sector;
- (b) Urgency of the issue;
- (c) Gaps in the standards;
- (d) IFRS convergence; and
- (e) Alignment with GFS.

Using these criteria, and having regard to offers of assistance or potential collaboration from various standard setters, the IPSASB has identified the following projects which it would like to add to the work program. These projects are:

- Measurement – public sector specific;
- Non-exchange expenses;
- Revenues – IPSASs 9, 11 and 23;
- Employee benefits IPSAS 25;
- Presentation of financial statements IPSAS 1; and
- Leases IPSAS 13.

The first three are “must-do” projects and the second three are more in the nature of maintenance. The Board will consider project briefs for these projects at the next meeting so that it can consider the relative size and complexity of the projects and decide how and when to incorporate them in the work program. The Board noted that there was quite a lot of feedback from respondents supporting more work on infrastructure assets and heritage assets. Staff will consider whether these issues can be worked into the measurement project or how the Board could provide more guidance on these topics.

Some of the comments that the IPSASB received as part of this consultation related to due process and ways of engaging with constituents. These suggestions are particularly important given the new governance arrangements under consideration. I’m pleased to report that:

- (a) A due process handbook is being developed.
- (b) A Consultative Advisory Group (CAG) is expected to be operating in 2016.
- (c) A forum for public sector national standard setters may be set up towards the end of next year or in 2016.

Agenda Item 10: Emissions Trading Schemes

The IPSASB received an education session on Emissions Trading Schemes (ETS) from IPSASB staff and IASB staff. The first phase of this project (ie the research phase) will be undertaken in collaboration with the IASB. This project has been around for a while but nothing much has happened, partly due to the fact that the IASB’s project on ETS was halted and has only recently been reactivated. Although some of the heat has gone out of this topic with the drop in prices, it is still a live issue and there continue to be new schemes established.

I provided an overview of the government’s accounting for the New Zealand scheme to the Board. Our approach is fairly much a mirror of the withdrawn IFRIC and reflects that the Government incurs an expense when it issues units at no charge, because it is giving away value at that point, and has an outstanding liability which is discharged as the units are surrendered. The units are treated as valuable securities, and are accounted for much like currency in circulation. When the SNA considered this issue, they took a different view that the units were a paper-go-round, which did not add to the Government’s obligations. They were encouraged in this view by governments, but it led to some interesting one legged accounting between the government sector and the market production sector, and differing representation of the value of units allocated for free and units that are sold or auctioned.

From the discussion at the meeting it is clear that people continue to have differing views about the existence of liabilities and whether it is acceptable to have differing treatments depending upon whether rights are sold or issued for free. Firms are arguing to the IASB, that when they are issued free units, and have to stay within emission caps, they are in fact worse off, and it would be inappropriate to recognise revenue at that point. The Board agreed that it will be necessary to consider the economic substance of these schemes. The problem is that we don't currently recognise all the economic phenomena that affect a business and the issue of emissions rights or the imposition of an obligation with respect to emissions have an impact on some of these unrecorded phenomena. Under the public sector conceptual framework, the IPSASB has the option to consider whether the obligation to stay under the cap represents an 'other obligation' and the financial performance of the entity should not be reflected as being enhanced – however at the moment the IASB does not have such a “deferred expense” solution available.

Agenda Item 11: Improvements

The *Improvements to IPSASs* were approved. This project is carried out every two years. It picks up the IASB's annual improvements and some narrow scope amendments (to the extent they are relevant), together with minor issues identified by the IPSASB.

The Board noted the importance to some constituents of staying up to date with changes to IFRS in relation to IPSASs that are based on IFRSs. The Board might also look at mechanisms for dealing with issues that are too big for the improvements process but which do not warrant a major project.

Agenda Item 12: Public Sector Financial Instruments

This project was started last year. It picks up some of the public sector specific issues that were parked when the IPSASB developed its financial instruments standards.

The topics being addressed in this project are:

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

At this meeting the IPSASB provided feedback on the first two chapters of a draft Consultation Paper. So far the project has focused only on monetary gold. The Board still needs to consider the other issues. There was quite a lot of discussion on this topic, including some very interesting discussions about applying the Conceptual Framework to link the objective of holding monetary gold to the measurement and presentation of changes in monetary gold and the type of information that users require about monetary gold.