

14 April 2015

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: Angela Ryan – IPSASB Member

IPSASB MEETING – March 2015

Introduction

The first IPSASB meeting for 2015 was held in Santiago, on 10-13 March. This report provides an overview of the meeting, including strategic matters and the approval of the Recommended Practice Guideline *Reporting Service Performance Information*. The appendix to the report records progress on technical topics.

This was my first meeting as an IPSASB member, having observed two meetings previously. Todd Beardsworth, Aimey Luu Huynh (my Technical Advisors) and I enjoyed the meeting and getting to know the IPSASB members, their Technical Advisors, IPSASB staff and the observers.

There was an outreach session on the Monday prior to the meeting. The outreach session was held by the Contraloria General De La Republica Chile on Chile's adoption of IPSASs. The IPSASB members from Malaysia and Brazil, and the Technical Advisor from Switzerland provided presentations on their country's adoption of IPSASs.

Chile's central government entities will be the first sector to apply IPSASs in 2016. Those entities will have a transition period of three years to recognise and value certain assets. The municipal sector will be in the second stage of application of IPSASs.

On the Monday afternoon, there was a meeting for new IPSASB members and Technical Advisors. The meeting outlined the IPSASB process and the status of the current projects.

Oversight and Governance

The IPSASB received an update about the IPSASB Governance Review Group's final recommendations on the future governance of the IPSASB. Brian Quinn from the World Bank provided the update on governance arrangements.

A governance body has been established. It is known as the Public Interest Committee and its initial membership comprises representatives from the International Monetary Fund, OECD, World Bank and International Organization of Supreme Audit Institutions. Representatives from other organisations may later join.

The new Public Interest Committee planned to have their first meeting on 26 March 2015. The Public Interest Committee will review the IPSASB's terms of reference and provide recommendations to IFAC later this year.

One of the recommendations of the IPSASB Governance Review Group was the establishment of a Consultative Advisory Group. The role of a Consultative Advisory Group would be to enable the IPSASB to receive direct feedback from interested public and private sector institutions. The Consultative Advisory Group's term of reference is yet to be finalised. Once finalised, there will be a call for nominations, which is expected to be later this year.

EPSASs

The European Commission is proposing to develop European Public Sector Accounting Standards (EPSASs), using IPSASs as the starting point.

Anabela Rodrigues from Eurostat provided an update on EPSASs. The European Commission is planning to issue a 'Communication regarding EPSAS'. The fifth internal task force meeting was planned for the week beginning 16 March 2015. The task force will look at the IPSASB's Conceptual Framework and Implementation Guidance.

Attendance, Membership and Staffing

As already noted, this was my first meeting as a member. This was also the first meeting for Michel Camoin (France) and Rod Monette (Canada).

All members were present apart from Rachid El Bejjat (Morocco) and Bob Dacey (USA). However, Bob joined the meeting via Skype for the vote to approve the Recommended Practice Guideline on Reporting Service Performance Information, the discussion on the Social Benefits Consultation Paper, and the update on Government Finance Statistics.

This meeting was the last for Stephenie Fox, Technical Director of the IPSASB. Stephenie has been with the IPSASB for more than 8 years and joined CPA Canada at the beginning of April in the role of Vice President Standards.

Meeting Overview

Technical Items	Decisions/ Feedback
3 Social Benefits	Approval of Consultation Paper
4 Sovereign Debt Restructuring under IPSASs	Update on current developments and discussion of issues
5 Reporting Service Performance	Approval of RPG
6 Government Finance Statistics Update	Discussion of issues
7 Public Sector Financial Instruments	Review of draft Consultation Paper
8 Government Business Enterprises	Review of responses to Consultation Paper
9 Public Sector Combinations	Discussion of issues and review draft ED
10 Work Plan	Approve
11 Emissions Trading Scheme	Discussion of issues

Technical Items	Decisions/ Feedback
12 IFRS 15	Education session

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.

The Board approved the Recommended Practice Guideline on Reporting Service Performance Information at the meeting.

Next Meeting

The next meeting will be held on 23–26 June in Toronto.

APPENDIX

PROGRESS ON TECHNICAL MATTERS

Agenda Item 3: Social Benefits

The objective of this session was to review the issues paper and approve the Consultation Paper.

The Board spent a considerable amount of time discussing the diagram to help explain the five scenarios in which a present obligation for a social benefit may arise – the obligating event approach (Option 1). Under this approach, obligations to pay social benefits is by reference to the definition of a liability. The issue is when the present obligation arises. The purpose of the diagram was to provide a picture of the differences between the following five scenarios and the timing of the recognition:

- (a) legal obligation;
- (b) all eligible criteria;
- (c) due and payable;
- (d) an obligating event arises when threshold eligibility criteria have been satisfied; and
- (e) an obligating event arises when key participatory events have occurred.

A number of Board members did not feel the diagram met its intended purpose. They were confused with the "due and payable" term. This term can be confused with a legal obligation because when the liability is due and payable, it is legally enforceable. It was agreed to restrict the use of this term in the Consultation Paper.

Staff provided the Board with an updated diagram, which presented a better picture of the timing of liability recognition when the criteria are satisfied. The Board agreed that the text accompanying the diagram would need to be clear to help explain it.

The Board noted that the definitions for social insurance programs and social assistance programs was not clear and it did not reflect the scoping diagram. The definitions will be updated to be more aligned with Government Finance Statistics and, where appropriate, to include examples.

The Board decided to reduce the number of Specific Matters for Comment, as the current number (of 14) may overwhelm constituents. The Board also decided that the Specific Matters for Comment needed to be less open ended and be more structured so that constituents have more direction about what to provide their comments on.

The changes were too significant for the Board to approve the Consultation Paper at this meeting. Staff will bring back a revised Consultation Paper in June.

The Board discussed whether or not the Consultation Paper should contain a Board preliminary view. The Board decided that it was not ready to form a preliminary view at this meeting. Staff will draft a preliminary view and include it in the next version of the Consultation Paper to focus the Board on whether or not to include a preliminary view in the Consultation Paper.

Agenda Item 4: Sovereign Debt Restructurings under IPSASs

There has recently been considerable media coverage and discussion about sovereign debt issues, including restructuring of debt and quoting “dubious” measures related to debt as being in accordance with IPSASs. The paper on sovereign debt restructuring was provided to the IPSASB to inform them about how IPSASs deal with some of the transactions and events that arise through debt modifications and restructurings.

Debt and net debt are not defined in the IPSASBs literature. However, GFS does define gross debt and net debt and measures them in a particular way that may not relate directly to information presented under IPSASs.

The Board decided that it would be helpful if there was some information related to sovereign debt restructurings and debt measures made public, to help dispel any incorrect information attributed to IPSASs. However, the Board wanted to avoid providing any authoritative views or interpretations. It was decided that the various issues around sovereign debt restructuring could be addressed through a staff Q&A document.

Agenda Item 5: Reporting Service Performance

The Board reviewed the final draft Recommended Practice Guideline *Reporting Service Performance Information* and identified minor revisions. The Board approved the Recommended Practice Guideline for issue subject to the minor amendments identified.

This Recommended Practice Guideline is not expected to be adopted as a PBE pronouncement in New Zealand as we are currently working on an Exposure Draft of a standard on Service Performance Reporting for Tier 1 and Tier 2 Public Benefit Entities. The aim of having a standard rather than a Recommended Practice Guideline reflects New Zealand's long history of service performance reporting.

Agenda Item 6: Government Finance Statistics Update

Alignment with Government Finance Statistics (GFS) is one of the Board's work plan priorities. The IPSASB first worked with the statistical community through the IMF-led Task Force on Harmonization of Public Sector Accounting between 2003 and 2005. This Task Force published a research report comparing IPSAS and GFS in 2005, which led to the development of IPSAS 22, *Disclosure of Information about the General Government Sector* and influenced the update of the System of National Accounts.

The IPSASB staff have prepared GFS Tracking Tables that show differences between GFS and IPSASs. The GFS Tracking Tables categorise the differences as ones the IPSASB could work on to eliminate differences, ones for which GFS could possibly be worked on to eliminate differences and ones where it may not be possible to eliminate differences. The GFS Tracking Tables were presented at the GFS Advisory Committee (GFSAC) meeting in March 2015. The GFSAC thought the tables were conservative and expected a smaller number of differences, particularly when GFS implementation guidance and interpretations (outside of the manual) are taken into account. At the GFSAC meeting, the IMF staff said they would work with the Task Force to eliminate any differences between GFS and IPSASs that may require changes to GFS.

The Board agreed to update the GFS Tracking Tables and include them as a regular agenda items for future IPSASB meetings. The Tracking Tables are expected to help the IPSASB when it is planning future projects.

Note, Ken Warren, the former IPSASB member from New Zealand is a new member of the GFSAC.

Agenda Item 7: Public Sector Financial Instruments

The project on public sector financial instruments has quite a few sections, and progress with the project is of some concern to the Board.

At this meeting, the Board considered the section of the project dealing with monetary gold, as well as the scope of the draft Consultation Paper.

Central banks and governments tend to hold physical gold as a reserve asset for reasons such as economic security and risk diversification. There was a lot of discussion about whether historical cost information would help users to assess operational capacity. One argument to support historical cost is that some jurisdictions have restrictions on the sale of monetary gold and they are held for symbolic purposes. The Board decided that more work needed to be done on the accounting for monetary gold to reflect the intent and purpose of the asset.

The Board also briefly discussed notes and coins and whether issued currency meets the definition of a liability. This is the section that will be drafted for the next meeting.

The Board contemplated removing the recognition and measurement of statutory receivables and statutory payables from the scope of the project, but didn't do so. However, the Board did note that the initial recognition and measurement of statutory receivables and statutory payables would be addressed as a consequence of the revenue and non-exchange expenses projects respectively.

Agenda Item 8: Government Business Enterprises

The purpose of this paper was to consider the responses to the recent Consultation Paper on the Applicability of IPSASs to Government Business Enterprises (GBEs) and Other Public Sector Entities.

The Board reviewed the responses to the Consultation Paper. Nearly 90% of the respondents agreed with the Board's preliminary view of describing the entities for which IPSASs are appropriate, rather than continuing to define GBEs. The Board agreed to revise the description of public sector entities, and noted three parts to the description:

- (a) The responsibility of the entity;
- (b) The way the entity is financed; and
- (c) The primary objective of the entity.

The decision to no longer define GBEs is expected to result in:

- (a) The *Preface to International Public Sector Accounting Standards* being amended;
 - (b) The definition of a GBE and supporting grey letter in paragraph 12 of IPSAS 1 being deleted;
- and

- (c) The black letter and grey letter reference to GBEs in other IPSASs, Recommend Practice Guidelines and Studies being deleted.

The Board agreed that the consequential amendments would be set out in a single Exposure Draft. Staff will present the draft Exposure Draft at the next meeting.

Agenda Item 9: Public Sector Combinations

The purpose of this paper was to review the issues paper and draft Exposure Draft (ED).

The ED separates public sector combinations into one of three types, one of which relates to combinations under common control (reorganisations), and two of which relate to combinations not under common control (acquisitions and amalgamations). Reorganisations are all accounted for using the modified pooling of interests method, as are amalgamations. Acquisitions are accounted for using the acquisition method of accounting.

The structure of the ED relies on very clear definitions and supporting text describing the key characteristics of the three different types of public sector combinations. In my view, if the right definitions and supporting material are included in the ED, it would be close to being in a reasonable shape to expose for comment.

However, the Board was split about the definition for acquisitions. It was also split when it came to the decision tree (for classifying public sector combinations), and in particular the first question that should be asked.

To help progress this project in June, the Board agreed to look at the public sector's main business combinations of amalgamations and reorganisations first. The Board agreed to get the principles for these combinations right first then reconsider acquisitions, as acquisitions are less common in the public sector.

The ED will use the relevant principles from IFRS 3 *Business Combinations* only for public sector "acquisitions". The Board was clear this is not a convergence project with IFRS 3. This approach is considered to be in line with the views of respondents to the 2012 Consultation Paper, who felt IFRS 3 was not appropriate for most public sector combinations because there were very few acquisitions not under common control.

Agenda Item 10: Work Plan

The purpose of this agenda item was to approve future IPSASB standard setting projects based on a number of project briefs.

The Board approved the project briefs for:

- (a) Revenue
- The Chair thanked the XRB, NZASB and Tony Dale, Chief Executive of the XRB, for offering their resources to this project.
 - This is not a convergence project with IFRS 15 for exchange revenue. However, IFRS 15 will be used as a significant reference point.

- The scope of the project is expected to deal with the recognition and initial measurement of statutory receivables, which is not part of the scope of the public sector financial instruments project.
- (b) Non-exchange expenses
- The Chair thanked GASB and David Bean for offering their resources to this project.
 - The project brief will cover the interaction with the social benefits project and include other transfers in kind.
 - The scope of the project is expected to deal with the recognition and initial measurement of statutory payables, which is not part of the scope of the public sector financial instruments project.
- (c) Review of Cash Basis IPSAS
- This is a limited scope review and it should be made clear that this standard is the stepping stone to accrual accounting rather than being an end result.
 - Three members dissented from the approval. These members appeared to be concerned about the signal that this project sends, and they were not persuaded that the evidence used to support the project was sufficiently current.
- (d) Consequential changes from the Conceptual Framework
- This project will update the current IPSASs as a result of the Phase 1 Chapters of the Conceptual Framework (Chapters 1-4).
- (e) Employee benefits
- This project will update IPSAS 25, *Employee Benefits* to converge with IAS 19 *Employee Benefits*. The major change will be removing the corridor option that allowed deferred recognition of changes in the net defined benefit liability.

The Board also discussed the project briefs for:

- (a) Public sector specific measurement
- The project is more complex than what the project brief covered.
 - The scope will need to include when the applicable measurement basis would apply and the measurement methodology.
 - This project is closely linked with public sector specific assets and the possibility of having the projects run concurrently needs to be considered.
 - The project brief will be updated and be brought back in June.
- (b) Public sector assets
- The project brief will need to be split between heritage assets and infrastructure assets as these are quite different and cannot be dealt with together.

- These projects are closely linked with public sector measurement and the possibility of having the projects run concurrently needs to be considered.
- The project brief will be updated and be brought back in June.

(c) Leases

- The Board did not discuss this project brief as they did not see much benefit until the IASB issues the new leases standard.

Agenda Item 11: Emissions Trading Schemes

The Board considered an issues paper relating to the development of a Consultation Paper on accounting for Emissions Trading Schemes (ETSs).

This project is a collaborative project with the IASB. The commitment to collaborate is during the research phase, up to the point where the IPSASB and IASB issue their consultation paper and discussion paper respectively. By collaborating on this project, both Boards will have similar information from which to make decisions and it is hoped that this will lead to a level of consistency in the accounting by the various participants to the schemes. In the event that there is divergence between the two Boards, this can be made clear in the respective papers.

Subject to the findings of the research phase, the IPSASB see traders of ETS instruments as being within the scope of the Consultation Paper.

The Board intend to ultimately issue a standard on ETS as a result of this project. On the other hand, the IASB considers this project to be a research project and the IASB has not made any commitment to producing a standard or other guidance at this stage.

Staff will draft a second issues paper and further chapters of the Consultation Paper for consideration at the June meeting.

Agenda Item 12: Education Session on IFRS 15

The Board received an education session on IFRS 15 *Revenue from Contracts with Customers* from Todd Beardsworth. The purpose of the session was to outline the core principle of IFRS 15 and the five step revenue model, and to prompt the Board to consider how this can be applied to the public sector for the revenue project. For most of the Board members, this was the first time they had engaged with IFRS 15.

Although this was the last session of the meeting, the Board was very engaged and had a number of questions and comments that we will need to consider in the revenue project. Questions included how public sector specific revenue such as research grants, fees, fines, spectrum license, patents, and exchange and non-exchange components of subsidised services are accounted for under the 5 step revenue model.

Based on the discussion at the end of the presentation and after the meeting had finished, I think that there will be significant challenges to try and adapt the five step revenue model to non-exchange revenue.