

Report: International Public Sector Accounting Standards Board (IPSASB) Meeting

12 – 16 September 2011

Toronto, Canada

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The third meeting for 2011 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Toronto in September, hosted by the Canadian Institute of Chartered Accountants.

This report addresses the following aspects of the IPSASB's activities:

- 1 strategic and operational matters;
- 2 key technical matters and outcomes from the meeting;
- 3 out-of-session activities; and
- 4 future IPSASB meetings.

The next meeting of the IPSASB will be held in Brasilia, Brazil, in December 2011.

1 Strategic and Operational Matters

1.1 Meeting Attendance and Staffing

The total membership complement comprises 18 members, including the three public members (from Canada, Italy and Switzerland – Chair). Seventeen members attended the meeting, the only apology being from the member from China. The IFAC Board has decided that proxy voting by absent members will not be permitted from 2012, a decision that applies to all of IFAC's standard-setting boards.

A secondee from Ernst & Young Germany will join the IPSASB staff in November. A new, permanent appointment to the staff is also likely to commence late in 2011. With these appointments, the IPSASB will have eight full-time and two part-time technical staff.

No IASB member or staff attended the meeting. The previous IASB observer, Warren McGregor, had retired recently from the IASB. Ian Mackintosh (IASB Vice Chairman) will be the new IASB observer.

1.2 Governance Arrangements for the IPSASB

The IPSASB has developed a Consultation Paper (CP) on revising its governance arrangements, considering not only due-process oversight but also other aspects such as the need for a full-time Chairman, the relative numbers of public and regular members, the role of an enhanced consultative advisory group, and resourcing and fundraising processes. The proposed CP addresses two oversight models – oversight by the Public Interest Oversight Board (PIOB), and oversight by a new, public sector specific body. The CP was to be issued for public comment following a period of preliminary consultation and then finalisation of the CP by the IFAC Board.

The preliminary consultation to date has identified significant support for the proposals, with some preference for adopting oversight by the existing PIOB as the most efficient way forward. The PIOB is expected to encourage the Monitoring Group (MG), which oversees and appoints the PIOB, to develop a consultation paper to propose expanding the PIOB's remit to include oversight of the due process of the IPSASB in addition to that of the other IFAC Boards that it already deals with. The IPSASB Chairman reported that the MG is expected to consider its position on the remit of the PIOB in October.

The IFAC CP had been expected to be issued in September 2011 for public comment by the end of the year, however this has been delayed pending the responses from the PIOB and the MG. The IFAC CP may be issued in conjunction with or jointly with a consultative document from the MG, depending on its views. Public consultation on finalised proposals is now expected in 2012.

The IPSASB Chairman noted that the IPSASB and the IASB were developing a memorandum of understanding to recognise and organise co-operation between the Boards. The MG had sought clarity about the relationship between the Boards in considering its position on revised oversight arrangements.

1.3 Work Program

The work program was not discussed explicitly at this meeting and so no work program decisions were made. The development of its conceptual framework remains the top priority of the IPSASB.

Since the June meeting of the IPSASB, project briefs for two new projects have been approved out of session, so that the projects can be commenced as soon as possible. The two new projects are the first-time adoption of IPSASB Standards, and a government finance statistics (GFS) update project. The first-time adoption project will address transition requirements in adopting the IPSASB accrual-accounting Standards, whether the transition is from a cash basis of accounting or some form of accrual accounting. The GFS project will initially develop an appendix to the GFS Manual concerning the relationship between accounting standards and statistical reporting standards. Later phases might be carried out to address differences between those sets of standards, potential amendments to IPSAS 22 *Disclosure of Financial Information about the General Government Sector*, and an illustrative chart of accounts for the provision of both IPSAS and GFS data.

The IPSASB agenda includes a number of committed projects that are presently inactive – financial instruments (public sector issues), maintenance of IFRS convergence in respect of financial instruments (IFRS 9), and consolidations and joint arrangements (IFRS 10-12, etc).

At the September meeting, the IPSASB received an update on its social benefit obligations project, which was deferred following a Consultation Paper in 2008 in favour of developing a public sector conceptual framework, as input to its deliberations on further projects to add to the IPSASB's active work program. Another project being considered for inclusion on the work program is emission trading schemes (government perspective), where the IPSASB is hoping to develop its proposals jointly with the IASB.

2 Key Technical Matters and Outcomes

2.1 Conceptual Framework

The IPSASB has issued the following consultative documents in relation to its project to develop a conceptual framework (CF) for general purpose financial reporting by public sector entities:

- Exposure Draft on phase 1 – objectives and users, scope, qualitative characteristics and reporting entity (comments due 15-6-11);
- Consultation Paper on phase 2 – elements and recognition (comments due 15-6-11);
- Consultation Paper on phase 3 – measurement (comments due 15-6-11); and
- Exposure Draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (comments due 31-8-11).

At the September meeting, the IPSASB commenced its review of the submissions received on the phase 1-3 documents and continued its development of a consultation paper on phase 4 – presentation.

Conceptual Framework – Objectives, Scope, QCs and Reporting Entity ED (Phase 1)

The IPSASB discussed a range of issues raised in the 54 submissions received, generally without making decisions on the issues. More detailed discussion will be held at the December meeting. However, the IPSASB did reach tentative views on some major aspects.

Members agreed that the scope of financial reporting addressed by the IPSASB should remain broad, despite the strong views held by some respondents. Some of the anguish over this may be reduced by clarifying that guidance outside formal Standards could be either authoritative or non-authoritative (as decided in each case). Staff will work on a separate paper to consider scope issues.

The reporting entity section, and particularly the paragraphs on group reporting entities, were criticised as being too detailed. Some respondents were concerned that the legislature might determine the entities that ought to prepare financial reports. Others were concerned that the proposals implied consolidation of different levels of government. Members agreed that this section should be more principled and less detailed. Most members supported a high-level concept based on the existence of financial report users, including identifying general characteristics of reporting entities. Group reporting entities might be subsumed into discussion of reporting entities rather than being addressed separately.

Conceptual Framework – Elements and Recognition CP (Phase 2)

The IPSASB carried out an initial review of the 35 submissions. Most issues will be discussed in detail at the December meeting. However, the IPSASB did reach agreement on the following matters:

- (a) the definition of an asset should refer to both service potential and economic benefits;
- (b) assets should be associated with entities based on the notion of control;
- (c) a settlement date is not required for a liability to be identified;
- (d) a liability requires an obligation to an external party or parties, without requiring the parties to be specifically identified;
- (e) the recognition criteria should be separate from the definitions of elements; and
- (f) the same criteria should apply to recognition and derecognition.

Conceptual Framework – Measurement CP (Phase 3)

Thirty-five submissions were received on this Consultation Paper, expressing a wide range of views. The IPSASB discussed issues at a general level, with members requesting the staff to consider developing an objective for measurement and relating this to concepts of capital and capital maintenance. Members noted the concerns expressed over the CP seeking to assess support for different measurement bases rather than linking the bases to a measurement objective and attributes. Fair value is also to be addressed more explicitly, given that it is a significant measurement basis applied in many Standards.

An initial draft of an exposure draft is to be considered at the December meeting.

Conceptual Framework – Presentation (Phase 4)

The IPSASB discussed another draft of a Consultation Paper on this part of the CF work. The IPSASB had hoped to finalise the CP at this meeting, but will now consider a revised version at the December meeting. This is likely to delay the completion date for the CF project, possibly into 2014.

The Presentation phase addresses principles for general purpose financial reporting, and hence is not limited to general purpose financial statements. The broader scope should be useful to the IPSASB as it addresses a range of issues for GPFRs, such as service performance reporting and long-term fiscal sustainability.

The CP will present the view that presentation is the general term, encompassing both display (information on the face of a statement or other core information) and disclosure (supporting information elsewhere in a GPFR, such as notes to financial statements). However, the CP is unlikely to include criteria for distinguishing these, leaving it to Standards to set the distinction at a lower level for particular presentation requirements.

The CP seeks to address generally questions such as what information should be reported, and where and how it should be reported. The IPSASB discussed whether to expand the paper to address explicitly the “when” and “how often” dimensions as well, but decided not to expand the scope.

Based on previous decisions of the IPSASB, the draft CP discussed at the September meeting presented three alternative approaches to presentation concepts:

- (a) an approach that seeks to identify user-need focused concepts, such as the types of information that users need for decision making and accountability purposes;
- (b) the direct application of the qualitative characteristics of financial information to the presentation decisions of what/where/how, without creating separate presentation concepts; and
- (3) explicit presentation concepts drawing on the qualitative characteristics.

Members agreed that these approaches were not alternatives, with consideration of both user needs and the QCs resulting in the identification of a number of presentation concepts to guide decisions on presentation requirements. As a result, the IPSASB decided to reconsider a revised draft CP at its next meeting, with out-of-session review by the task-based group and then the members generally to try to ensure approval at that meeting.

2.2 Service Concession Arrangements – Standard approved

The IPSASB reviewed a draft Standard based on the decisions that it had made at previous meetings following detailed consideration of the submissions received in response to ED 43 *Service Concession Arrangements: Grantor* (Feb. 2010). The IPSASB approved the Standard for issue as IPSAS 32, once final editorial amendments have been made. The Standard is expected to be issued in October and will apply to reporting periods beginning on or after 1 January 2014. The Standard mirrors the requirements of IFRIC Interpretation 12 *Service Concession Arrangements*, which applies to operators, where feasible.

At this meeting, the IPSASB clarified the drafting of various requirements, such as excluding the application of IPSAS 29 *Financial Instruments: Recognition and Measurement* (apart from the derecognition requirements) to financial liabilities recognised under the service concessions Standard. A revised draft Standard was prepared during the meeting by staff and the task-based group.

As the IPSASB had, in previous meetings, changed a number of significant requirements from the proposals in ED 43, the IPSASB also considered whether to re-expose the proposed Standard in whole or in part, instead of approving the issue of a final Standard. The principal changes addressed in this respect were:

- (a) a grantor recognising service concession assets under a service concession arrangement (SCA) should also recognise a liability, being revenue received in advance, when the grantor provides the operator with an intangible right (e.g. the right to charge users) in return. ED 43 had proposed that the liability reflected a performance obligation. The revenue is to be recognised by the grantor over the term of the SCA in a pattern that reflects the substance of the arrangement;
- (b) a grantor should recognise a work-in-progress service concession asset as it is being constructed by the operator rather than when it is placed into use under the SCA, if the recognition criteria are satisfied; and
- (c) the Standard would require retrospective application by all entities, but would permit entities to elect to recognise a deemed cost for service concession assets as at the beginning of the earliest comparative period presented. ED 43 had proposed retrospective application of a new Standard by entities already recognising SCAs, but prospective application by other entities (with retrospective application permitted).

The IPSASB decided that these changes did not warrant re-exposure of the agreed Standard either in whole or in part: the unearned revenue approach under (a) represented a change in justification rather than a change in the accounting; the construction accounting under (b) applied recognised principles and resulted in a timing change; and the revised transitional provisions under (c) had eased the possible difficulties with retrospective application.

2.3 Reporting Fiscal Sustainability Information – ED approved

The IPSASB considered a revised draft Exposure Draft, titled *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, and approved it for issue. The comment period will be four months (ending 29 February 2012). The ED will propose a Recommended Practice Guideline (RPG) that is not mandatory even when entities report fiscal sustainability information, although entities would be encouraged to report the extent to which it has followed or departed from the recommendations in a final Guideline.

The proposed definition of ‘long-term fiscal sustainability’ is the ability of an entity to meet service delivery and financial obligations and commitments both now and in the future. The ED will identify the key dimensions of fiscal sustainability as fiscal capacity, service capacity and fiscal dependence or vulnerability. The ED will give examples of fiscal sustainability indicators that entities may elect to report rather than seeking to identify indicators that ought to be reported. The disclosure of principles and methodologies underlying projections of inflows and outflows is also addressed in the ED.

2.4 Reporting Service Performance Information – CP approved

The IPSASB considered a revised draft of a Consultation Paper on the reporting of service performance information in GPFRs, and approved it for issue. The six-month comment period will conclude on 15 April 2012.

The CP will present some preliminary views (PVs), including that reporting service performance information is necessary to meet the objectives of financial reporting. However, the CP will address three alternatives for the nature of any resulting statement on service performance reporting: a mandatory IPSAS or other pronouncement, a pronouncement that applies when an entity reports service performance information, and non-mandatory guidance to be considered when an entity reports such information. Issuing a mandatory IPSAS would have implications for compliance with IPSASs in all GPFRs, not just broader-scope GPFRs.

The CP identifies four dimensions of service performance information as necessary to meeting users’ needs:

- information on the entity’s objectives;
- key performance indicators – input, output, outcome, efficiency and effectiveness indicators (without specifying which particular indicators might be reported);
- comparisons of performance to projected or targeted results; and
- time-oriented information, including comparisons across periods and to milestones.

The CP also proposes working definitions of the types of performance indicators noted above, given the variation in terminology across current reporting practices.

2.5 Entity Combinations

The IPSASB considered a revised issues paper on this project, which is intended to fill a gap in the IPSASB’s set of Standards – there is no explicit IPSASB Standard addressing entity combinations, as IPSASB members could not agree in 2010 on a proposed Standard that was based on IFRS 3 *Business Combinations*. The working definition of an entity combination is “the bringing together of separate entities and/or operations into one entity”. An initial draft of a Consultation Paper will be considered at the December meeting.

The draft CP will address acquisitions and amalgamations under common control as well as those occurring outside common control circumstances. The issues paper proposed an approach to determining which measurement basis or approach to use based on whether the transferor belongs to the public sector or the private sector. The IPSASB decided instead that entity combinations should be distinguished according to whether they occur under common control.

The IPSASB agreed that the scope of this project should include the acquisition of a joint venture, with the accounting for the formation of a joint venture remaining subject to IPSAS 8 *Interests in Joint Ventures*.

2.6 Consolidation and Joint Arrangements Standards

At the previous meeting, the IPSASB approved a project brief to update IPSAS 6 *Consolidated and Separate Financial Statements*, IPSAS 7 *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures* for the recent issue of revised Standards by the IASB.

At this meeting, the IPSASB considered whether to retain the temporary-control exemption from consolidation of subsidiaries, which remains in the current version of IPSAS 6. In general, members were reluctant to remove the exemption without also addressing the need for a Standard corresponding to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, but no final decision was made.

This project is not expected to be discussed at the December meeting.

2.7 Financial Statement Discussion and Analysis

Previously known as the “narrative reporting” project, this is another of the broader-scope projects being addressed by the IPSASB. The IPSASB is developing an exposure draft, and will consider a further draft at the next meeting.

The IPSASB is of the view that financial statements and financial statement discussion and analysis (FSDA) ought to be issued together. Again, the issue arises as to whether the objective of this project should be a mandatory IPSAS, requirements that apply when an entity chooses or is required to provide a narrative report on its financial statements, or purely voluntary guidance. Members expressed concern that a mandatory IPSAS could be seen as extending the scope of general purpose financial statements or lead to auditing issues.

The ED is likely to propose the basic components of an entity’s FSDA as consisting of an overview, the nature of operations, risks and risk management, changes from the previous period and significant trends. Illustrative examples and/or implementation guidance may be included in the ED to indicate the scope of the requirements, but they might not be retained in any final pronouncement.

2.8 Improvements to IPSASs – Standard approved

The IPSASB considered the responses received to Exposure Draft ED 45 *Improvements to IPSASs 2011* (March 2011), and approved a Standard, which will apply to reporting periods beginning on or after 1 January 2013.

The Standard deletes the Introduction section of any IPSAS that has one. It also makes minor corrections to four IPSASs, such as cross-references to other IPSASs. IPSAS 21 *Impairment of Non-Cash-Generating Assets* is amended to include the reassessment of an asset’s useful life as finite rather than indefinite as another indicator of impairment.

3 Out-of-Session Activities

3.1 Documents approved by the IPSASB

IPSASB members approved two project briefs through out-of-session ballot since the previous IPSASB meeting, in June 2011. See item 1.3 – work program – in this report.

3.2 Comments on IPSASB agenda papers

AASB and NZ Accounting Standards Board (NZASB) staff reviewed and prepared comments on various agenda papers for the September 2011 IPSASB meeting. The agenda papers and comments were discussed with the Australian and New Zealand members of IPSASB. Staff of CPA Australia and The Institute of Chartered Accountants in Australia are invited to participate in these briefing meetings.

The staff comments were revised following the briefing meeting and provided to the IPSASB staff prior to the IPSASB meeting for their information.

4 Future IPSASB Meetings

| Dates | Location | Host |
|------------------------|---|--|
| 5 – 8 December 2011 | Brasilia, Brazil | Conselho Federal de Contabilidade; and National Treasury |
| 12 – 15 March 2012 | Dusseldorf, Germany, or Toronto, Canada | TBD |
| 11 – 14 June 2012 | Toronto, Canada | Canadian Institute of Chartered Accountants |
| 17 – 20 September 2012 | Norwalk, USA | Governmental Accounting Standards Board |