



Project:	IPSASB Update	Meeting	AASB May 2022 (M187)
Topic:	Report on March 2022 Meeting of the IPSASB	Agenda Item:	7.2
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		Decision-Making:	Low
		Project Status:	Report

Introduction

The first principal meeting for 2022 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held via a physical meeting in New York, with some members joining by teleconference. Five sessions were held, on 21-25 March 2022. The IPSASB also held a virtual, check-in meeting on 24 February.

With Mike Blake's term as an IPSASB member having concluded at the end of 2021, there is no longer any Australian representation at IPSASB meetings.

This report summarises possible implications for the AASB arising out of the key technical matters and outcomes from the IPSASB meeting and agenda, as well as highlighting new and forthcoming pronouncements or proposal documents.

The next principal meeting of the IPSASB will be held on 21-24 June 2022.

1 Possible Risks and Opportunities for the AASB

The AASB should monitor the following IPSASB developments. Divergence with Australian Accounting Standards as applicable to public sector entities might arise, if different requirements in International Public Sector Accounting Standards (IPSAS) are not considered appropriate for incorporation into Australian Accounting Standards. Alternatively, IPSASB developments may complement AASB work underway or provide opportunities the AASB may wish to take on board.

Projects Considered at the February/March IPSASB Meetings

New Standard Approved

- Non-Current Assets Held for Sale and Discontinued Operations –The IPSASB approved IPSAS 44 at the March meeting. The Standard was approved essentially as proposed in ED 79 (one of the “Measurement EDs”). This includes, for accountability purposes, an additional disclosure requirement of the fair value of assets held for sale that are recognised in the financial statements at a carrying amount significantly *below* the fair value. Apart from that, it is aligned with IFRS 5 and therefore AASB 5. IPSAS 44 is expected to be

published in May with an effective date of 1 January 2025. It is expected to be applied to “commercial” transactions, but it is unclear how that is to be expressed – perhaps only in accompanying commentary. Otherwise, no specific issues with public sector application of IFRS 5/ AASB 5 have been identified.

Continuing Projects

- Sustainability Reporting – the IPSASB approved, through discussions open only to the IPSASB members and senior staff, a Consultation Paper on developing a sustainability reporting framework for the public sector. The CP is expected to be issued in May. The CP will address working with the International Sustainability Standards Board, for example. The Public Interest Committee (the IPSASB’s oversight body) has indicated that it is prepared to undertake oversight activities in respect of IPSASB sustainability pronouncements. The IPSASB notes that its Recommended Practice Guidelines provide a foundation for reporting sustainability information, in particular RPG 1 *Reporting on the Long-Term Sustainability of an Entity’s Finances* and RPG 3 *Reporting Service Performance Information*.
- Retirement Benefit Plans – this project is developing a new IPSAS based on IAS 26, adapted with consideration given to alternative approaches of national standard-setters, including AASB 1056 *Superannuation Entities*. The Exposure Draft was approved by the IPSASB at the February 2022 check-in meeting. ED 82 was issued at the start of April, following a final editorial process, for comment by 1 August.

The ED proposes a requirement to present the actuarial present value of promised retirement benefits (based on projected salaries) for defined benefits and the defined contribution obligation to participants on the face of the statement of financial position. The proposals label the defined benefit obligation as a provision (and thus a liability), but the defined contribution obligation is not classified. Plan investment assets are proposed to be measured at fair value. The ED does not specify how contributions to a plan and benefit payments should be classified but would permit different approaches, so that the ultimate IPSAS potentially could permit the approach in AASB 1056 of classifying contributions and benefit payments respectively as increases and decreases in obligations to members of the plan.

- Leases – Phase 2 (Other Lease-Type Arrangements) – this part of the IPSASB’s project on leases is based on a Request for Information (January 2021) that sought details of public sector-specific arrangements. This part is of more relevance to the AASB than Phase 1, which resulted in the issue of a new Standard, IPSAS 43 *Leases* (January 2022), that applies from 1 January 2025 and is equivalent to IFRS 16. Phase 2 is expected to address concessionary leases and similar public sector arrangements through a second ED process, providing the opportunity for the AASB to comment on matters that could be relevant to public sector application of AASB 16.
- Natural Resources – this project will be conducted in phases. Phase 1 focusses on developing a Consultation Paper to address subsoil resources, water and living resources. Further phases might develop an exposure draft, depending on the responses to the CP, or address other natural resources. This project potentially could establish recognition and/or disclosure requirements for resources that currently are not addressed in financial statements in Australia, and therefore could be the basis for an AASB project. The CP was approved by the IPSASB in March 2022 and is expected to be issued in May (along with the Sustainability Reporting CP) for comment until October.

- Revenue with/without Performance Obligations – the IPSASB is continuing to consider the issues addressed in EDs 70 and 71. The IPSASB now supports preparing a single IPSAS to cover revenue recognition by transfer recipients, whether the recipient has either no obligations or “compliance obligations” under the transfer. ‘Compliance obligations’ is a new term, to cover what were previously termed present obligations, with its subset of performance obligations. The IPSASB has tentatively decided that all binding arrangements give rise to present/compliance obligations for each party.

The IPSASB’s decisions represent very different approaches to those in Australian Accounting Standards. The AASB ultimately should consider whether revised IPSAS requirements might improve existing Australian requirements for not-for-profit entities in AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

- Transfer Expenses – the IPSASB is continuing to consider the issues addressed in ED 72, deciding that the principles for transfer providers should be consistent as far as possible with those adopted for revenue and liability recognition by transfer recipients. The IPSASB has decided to adopt a revised accounting model for transfer expenses under binding arrangements. Whereas ED 72 proposed that the transfer provider would recognise an intangible asset prior to the transfer recipient fulfilling its performance obligations, this approach is now extended to cases where the transfer recipient has compliance obligations. There is no corresponding Australian Accounting Standard.
- Public Sector Measurement – this project could lead to changes in the measurement techniques specified in IPSAS, which the AASB should consider ultimately in terms of whether to update the measurement requirements in AASB Standards for not-for-profit public sector entities (and potentially for NFP private sector entities too). The IPSASB is now considering the issues raised by respondents to the various exposure drafts.

ED 77 *Measurement* proposed an IPSAS on measurement that supports the following measurement bases as relevant to general purpose financial reports: historical cost, fair value, current operational value (COV – a new basis) and cost of fulfillment (for liabilities). The ED also proposed removing replacement cost as a measurement basis or technique. Looking at the responses to ED 77, the IPSASB acknowledges that it will need to address stakeholder concerns regarding the proposed public-sector-specific COV measurement basis.

At the March 2022 meeting, the IPSASB decided to adopt those four measurement bases for the IPSAS, but noted that it needs to do further work in respect of historical cost and measurement model choice. Disclosure requirements are to be specified in other IPSAS.

- Limited Update of the IPSASB’s Conceptual Framework – Phase 1 (Measurement) – this phase addresses measurement issues in CF Chapter 7 through ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* (issued in April 2021). The ED covers measurement models and bases, leaving techniques to be covered in IPSAS. The selection of measurement bases is to be linked to the measurement objective (usually financial capacity or operational capacity) rather than to entry or exit values. The AASB should assess the IPSASB outcomes for potential not-for-profit entity modifications to the AASB Conceptual Framework (2019).

At the March 2022 meeting, the IPSASB decided, as proposed in ED 76, to add fair value to the CF as a measurement basis, replacing market value. However, the proposed deletion

from the CF of net selling price, cost of release and assumption price will be reconsidered after some members objected to their deletion from the CF even if they were not currently used in Standards. The three levels of measurement guidance (models, bases and techniques) will be called the Subsequent Measurement Framework rather than the measurement hierarchy.

Projects Not Considered at the February/March IPSASB Meetings

- Limited Update of the IPSASB's Conceptual Framework – Phase 2 (Other Topics) – this phase is to address the topics of asset and liability definitions, unit of account, executory contracts, service potential, prudence and materiality, mostly based on the IASB's 2018 CF amendments, which are reflected in the AASB's 2019 Conceptual Framework. Capital maintenance has been deferred to a later phase.

ED 81 was published in February 2022, with comments due 31 May. The ED proposes that 'service potential of a resource' be defined as the capability to provide services that contribute to achieving an entity's objectives. Prudence is to be treated as a reinforcement of neutrality rather than as a separate qualitative characteristic, and commentary on materiality extended consistently with the IASB's CF amendments. Public sector-specific revisions could be helpful to the AASB in extending the application of the 2019 Conceptual Framework to public sector entities in due course.

- Infrastructure – ED 78 *Property, Plant, and Equipment* (April 2021) proposes relocating general measurement aspects from IPSAS 17 *Property, Plant, and Equipment* (PPE) to a new IPSAS on measurement. Issues relating to infrastructure, such as the distinguishing characteristics of infrastructure assets that give rise to particular accounting issues, land under or over infrastructure assets, impairment of land and the use of condition-based asset management information, are covered. Some issues will not be subject to more specific guidance where the IPSASB considers that the general guidance in IPSAS 17 should be applied, such as dismantling costs. The infrastructure-related guidance and illustrative examples should be monitored to assess whether they might be proposed by the AASB as useful additions to AASB 116.
- Heritage – the IPSAS 17 PPE update ED (ED 78) also addresses issues relating to heritage assets. The ED proposes removing the current scope exclusion for heritage assets in IPSAS 17. The ED also proposes that IPSAS 17's depreciation requirements apply to heritage assets, although noting that in certain circumstances depreciation could be zero, and that heritage assets can be impaired and should be subject to normal impairment reviews. The heritage-related guidance and illustrative examples should be monitored to assess whether they might be proposed by the AASB as useful additions to AASB 116, even though heritage assets are already subject to AASB 116.

2 Work Program

Project Delays

At the March meeting, the IPSASB noted that the work program would be amended to defer the anticipated approval of an IPSAS arising from ED 77 *Measurement* beyond the scheduled September 2022 meeting, given the issues to be addressed further.

Exposure Drafts and Other Proposal Documents

Recently issued EDs for public comment:

- ED 81 *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements* (February 2022 – comments due 31 May 2022); and
- ED 82 *Retirement Benefit Plans* (April 2022 – comments due 1 August 2022).

The next proposal documents expected to be issued by the IPSASB for public comment:

- CP *Natural Resources* (expected to be published in May 2022); and
- CP – A Global Consultation on Developing a Sustainability Reporting Framework for the Public Sector (expected to be published in May 2022).

The IPSASB might decide to issue revised exposure drafts on revenue and transfer expenses, given its recent decisions that are changing the approach proposed in EDs 70-72, instead of issuing new IPSAS directly.

Mid-Period Work Program Consultation

The IPSASB’s mid-period Work Program Consultation Paper, under its Strategy and Work Program 2019–2023, was published in July 2021 for comment by 30 November 2021. The submissions received were first considered at the December 2021 IPSASB meeting.

At the March 2022 meeting, the IPSASB noted the significant stakeholder references to sustainability issues and also that the IPSASB would have fewer resources available for new projects. Therefore, the IPSASB decided to add the two major projects proposed in the CP to its 2022 work program, as well as two sustainability-related projects, as follows:

- presentation of financial statements – e.g. based on the updated IAS 1, encouraging judgement by preparers as to the appropriate presentation of material information in the financial statements and considering whether to require the presentation of other comprehensive income;
- differential reporting – for financial reporting by smaller public sector entities;
- reporting sustainability program information; and
- advancing public sector sustainability reporting (the proposed CP).

The four minor projects proposed in the CP will be added to the IPSASB work program as “pre-committed” 2023 projects, since they were supported by stakeholders:

- IPSAS 21 *Impairment of Non-Cash Generating Assets* – guidance on measurement of value in use;
- IPSAS 31 *Intangible Assets* – measurement, heritage assets;
- IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* – improving exceptions and exemptions within the three-year adoption transition period; and
- making materiality judgements – practice statement.

These minor projects are expected to be commenced in 2023 as resources permit or else to be considered again under the Strategy and Work Program update for 2024–2028.