



Project:	IPSASB Update	Meeting	AASB February 2022 (M185)
Topic:	Report on December 2021 Meeting of the IPSASB	Agenda Item:	15.3
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		Decision-Making:	Low
		Project Status:	Report

Introduction

The fourth and final principal meeting for 2021 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held via teleconference. Six sessions were held, on 7-10, 14 and 15 December 2021.

Mike Blake (Australian member) and Clark Anstis (Technical Advisor) attended the sessions of the meetings by video link. (Mike's membership of the IPSASB, and therefore Clark's role, concluded at the end of 2021 – see section 3 of this report.)

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 via teleconference, in March 2022. An interim "check-in" meeting will be held prior to that, on 24 February 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 December 2021 IPSASB Meeting

New Standards Approved

- Leases – Phase 1 (IFRS Alignment) – IPSAS 43 *Leases* was finalised at the December meeting, to replace IPSAS 13 *Leases* from 1 January 2025 – publication is expected in January 2022. IPSAS 43 is aligned with IFRS 16 *Leases* (and AASB 16) and therefore has little significance for the AASB. There is no scope exclusion for concessionary leases (the

same as for IFRS 16 and AASB 16), despite their intended specific coverage in Phase 2. Phase 2 is likely to be of much interest to the AASB in addressing public sector lease accounting issues.

- Improvements to IPSAS, 2021 – this amendment IPSAS was finalised at the December meeting after considering the responses to ED 80, and is expected to be published in January 2022. It includes both general and IFRS-alignment improvements. The IFRS-based amendments, such as interest rate benchmark reforms and proceeds from property, plant and equipment prior to intended use, have already been incorporated into Australian Accounting Standards. The IPSAS does not include amendments of significance for Australia.

Continuing Projects

- 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.

The ED (to be published early in 2022 as ED 81) will propose 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.

- 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 no obligations, present obligations or performance obligations under the transfer. Performance obligations are to be treated as a subset of present obligations. The IPSASB has tentatively decided that all binding arrangements give rise to present 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, including revised guidance on the existence of an intangible asset for the transfer provider prior to the transfer recipient fulfilling its obligations, which differs from the approach proposed in ED 72. There is no corresponding Australian Accounting Standard.
- 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 is expected to be approved in March 2022.

- Measurement Exposure Drafts (EDs 76–79) – at the December 2021 meeting, the IPSASB noted a preliminary analysis of the responses to the four EDs. The responses were assessed as giving significant support to the proposals in the EDs, except in relation to the proposed new public-sector-specific measurement basis Current Operational Value (COV). On COV, responses were divided across the views of support, develop further, or delete.

The IPSASB noted that significant further work will be required to consider and respond to the range of views regarding COV, but did not discuss any specific issues. Therefore, the summaries for the five projects covered by the four EDs have been retained in the following section for projects not considered at the December 2021 meeting.

- Retirement Benefit Plans – this project is to develop 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 is now expected to be given final approval at the February 2022 check-in meeting for issue.

The ED will propose a requirement to present the actuarial present value of promised retirement benefits (based on projected salaries) and the defined contribution obligation to participants on the face of the statement of financial position, and measurement of plan investment assets at fair value. The ED will 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.

Projects Not Considered at the December 2021 IPSASB Meeting

- Leases – Phase 2 (Other Lease-Type Arrangements) – this part of the IPSASB’s project on leases is based on a separate Request for Information (January 2021) that sought details of public sector-specific matters. This part is of more relevance to the AASB than the Phase 1 development of an IPSAS equivalent of 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.
- 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 ED proposes adding fair value to the CF as a measurement basis. 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). [The AASB made a submission to the IPSASB on ED 76 in October 2021.]

- Public Sector Measurement – this project could inform the AASB’s current Public Sector Fair Value Measurement project as it is addressing fair value as one of the measurement bases relevant to general purpose financial reports. Other measurement bases addressed in ED 77 *Measurement* include historical cost, current operational value (COV – a new basis) and cost of fulfillment (for liabilities). Measurement techniques for current value measurement bases are proposed as generally comprising market, income and cost approaches. The ED proposes removing replacement cost as a measurement basis or technique.

The IPSASB 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). Based on a preliminary review of 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. [The AASB made a submission to the IPSASB on ED 77.]

- Infrastructure – ED 78 (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 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.
- Non-Current Assets Held for Sale and Discontinued Operations – ED 79 (April 2021) is based closely on IFRS 5. For accountability purposes, the ED proposes an additional disclosure of the fair value of assets held for sale where they are recognised in the financial statements at a lower carrying amount. If this project identifies any issues with public sector application of IFRS 5, the AASB should consider proposing amendments to AASB 5 (which incorporates IFRS 5) for public sector entities.
- Borrowing Costs – At the June 2021 meeting, the IPSASB finalised non-authoritative guidance to be added to IPSAS 5 *Borrowing Costs*, following consideration of the responses to Exposure Draft ED 74. The new implementation guidance and illustrative examples on how to capitalise borrowing costs (which is retained in IPSAS 5 as an allowed alternative to expensing the costs) are not specific to public sector circumstances. Consequently, it might not be appropriate for the AASB to add them to AASB 123 – and no demand for such guidance has been noted. The guidance was finally issued by the IPSASB in November 2021.

2 Work Program

Project Delays

At the December meeting, the IPSASB noted that the work program would be amended to defer the anticipated approval of IPSAS arising from the revenue and transfer expenses EDs from June to September 2022. It was also noted that recent decisions of the IPSASB on these projects might result in re-exposure of the proposals, which would therefore delay the final approval of the IPSAS until much later.

The anticipated final approval of an IPSAS for retirement benefit plans will also be delayed by one quarter to March 2023, since final approval of the ED for publication was not achieved at the December 2021 meeting (approval is now expected in February 2022).

Exposure Drafts

The next EDs expected to be issued by the IPSASB for public comment are:

- ED 81 *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements* (expected to be published in January or February 2022); and
- ED 82 *Retirement Benefit Plans* (expected to be published in March 2022).

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 for comment by 30 November 2021. Regional virtual outreach events were held in Africa, Asia and South America in October.

The CP proposes that the IPSASB commence the following two major and four minor projects during 2022 and 2023, as resources become available, for completion under the post-2023 Strategy and Work Program:

- presentation of financial statements (a major project) – 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 (major project) – for financial reporting by smaller public sector entities;
- IPSAS 21 *Impairment of Non-Cash Generating Assets* (minor project) – guidance on measurement of value in use;
- IPSAS 31 *Intangible Assets* (minor project) – measurement, heritage assets;
- IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (minor project) – improving exceptions and exemptions within the three-year transition period; and
- making materiality judgements (minor project) – practice statement.

At the December meeting, the responses to the CP were given preliminary consideration by the IPSASB. As these were strongly supportive of the proposed major and minor projects, the IPSASB tentatively supported their addition to the work program, but this will be formally considered at the March 2022 meeting. The approach to sustainability issues will also be discussed in March, in view of the significant stakeholder references to this area.

3 IPSASB Membership

The membership terms of six members concluded at the end of 2021. Two members were reappointed for their second three-year terms:

- Luzvi Chatto (Philippines) – public sector audit; and
- Lynn Pamment (United Kingdom) – public sector audit.

Four members retired from the IPSASB at the end of 2021:

- Mike Blake (Australia) – public sector audit;
- Adrienne Cheasty (USA/UK) – economist;
- Bernhard Schatz (Austria) – Big 4 firm; and
- Marc Wermuth (Switzerland) – central government.

The four new members from the start of 2022, all appointed for three years, are:

- Abdullah Al-Mehthil (Saudi Arabia) – central government;
- Claudia Beier (Switzerland) – provincial government;
- Maik Esser-Müllenbach (Germany) – public sector audit; and
- Liang Yang (China) – Big 4 firm.

As a result of these appointments, the IPSASB is now the first of the IFAC Boards to have a majority female membership.

For the first time since the inception of the IPSASB and its predecessor (the Public Sector Committee), Australia will not be represented by a board member and technical advisor.
