



Project:	IPSASB Update	Meeting	AASB April 2019 (M170)
Topic:	Report on March 2019 Meeting of the IPSASB	Agenda Item:	10.1
		Date of Paper:	23 April 2019
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		Decision-Making:	Low
		Project Status:	Report

Introduction and objective of the meeting

The objective for this meeting is to discuss significant matters arising from the March 2019 meeting of the International Public Sector Accounting Standards Board.

Attachments

none

Background

The first meeting for 2019 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Washington DC on 12–15 March, hosted by the World Bank. Mike Blake and Clark Anstis attended the meeting as the Australian member (and also Deputy Chair) of IPSASB and Technical Advisor respectively.

This report summarises the key technical matters and outcomes from the meeting and operational and strategic matters.

The next meeting of the IPSASB will be held in Toronto, Canada, in June 2019, hosted by Chartered Professional Accountants Canada. This meeting will be followed by the biennial international Public Sector Standard-Setters Forum.

1 Key Technical Matters and Outcomes

Areas of Possible Risk/Opportunity for the AASB (in no particular order)

The AASB should monitor the following IPSASB developments because divergence with Australian Accounting Standards as these impact the public sector might be an outcome, if IPSASB-specific requirements were 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:

- The IPSASB's project on Public Sector Measurement could inform the AASB's current Fair Value Measurement project:

- guidance on applying common measurement bases, including fair value and replacement cost, is being developed;
 - the IPSASB is likely to propose the expensing of borrowing costs with no capitalisation option, which would be inconsistent with Australian Accounting Standards (and IFRS Standards); and
 - measurement bases specified in current IPSAS that are inconsistent with the IPSASB Conceptual Framework might be changed.
- The Revenue project is considering issues that the AASB addressed in its Income of Not-for-Profit Entities project, which culminated in AASB 1058 and Appendix F to AASB 15. The project outcomes are now expected to be more consistent with the AASB pronouncements than the proposals in the IPSASB Consultation Paper, but there could be differences of detail, such as the criteria for the enforceability of binding arrangements.
 - The Non-Exchange Expenses project (updating IPSAS 19 and 23) is addressing issues that are largely not covered in Australian Accounting Standards and thus IPSASB requirements could form the basis for Australian not-for-profit requirements developed by the AASB, such as collective and individual services.
 - The Leases project is considering the accounting for concessionary leases, which are partially addressed in AASB 16. However, the lessor accounting proposals in IPSASB ED 64 (for both normal and concessionary leases) met a very mixed response and are being reconsidered.

Public Sector Measurement

The IPSASB is developing a Consultation Paper *Public Sector Measurement*, which will include an “illustrative” Exposure Draft *Measurement*, originally with a view (encouraged by the Public Interest Committee) to expediting the subsequent finalisation of an initial Standard. However, it now appears that a draft Standard based on the illustrative ED will be again exposed for comment with an ED based on the Consultation Paper (CP).

The CP was approved by the IPSASB at the March meeting, and is expected to be published by the end of April. Submissions will be due by 30 September 2019.

The illustrative ED will propose definitions of (“the what”) and application guidance (“the how”) for the following primary measurement bases in the public sector:

- cost of fulfillment
- fair value
- historical cost
- replacement cost (as an entry measure).

For example, the illustrative ED will incorporate the requirements of IFRS 13 *Fair Value Measurement*, including its application guidance. The Basis for Conclusions to the illustrative ED is expected to cover the reasons for which various measurement bases might be selected for application (“the why”). However, the IPSASB decided to address the distinction between fair value and market value (only the latter is specified in the IPSASB’s Conceptual Framework) in the subsequent formal ED.

Measurement bases required to be applied (“the which”) would continue to be specified in other IPSAS. The CP will address the application of the measurement principles in the IPSASB Conceptual Framework to assets and liabilities, and related items such as borrowing costs and transaction costs. However, the IPSASB agreed at the meeting that the CP would not cover the measurement of assets held for sale or disposal (being a question of *which* basis is relevant).

Consequential amendments to other IPSAS to change required measurement bases would require a formal ED.

Revenue

The IPSASB has decided that enforceable (binding) arrangements would be accounted for under an IFRS 15-aligned Standard, with additional guidance for applying the five-step public sector performance obligation approach (PSPOA). Non-enforceable arrangements would be accounted for under an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The next project output will be two Exposure Drafts, proposing replacements for IPSAS 23 and IPSAS 9 *Revenue from Exchange Transactions*. Updated revised versions of the EDs will be considered at the next meeting.

IFRS 15 Alignment

At this meeting, the IPSASB reviewed an initial draft of an ED marked up from IFRS 15, including the definition of “purchaser”, which is to be used generally in place of “customer”. The title of the IFRS 15-aligned IPSAS is likely to be proposed as “Revenue from [Transactions with?] Performance Obligations”.

Enforcement mechanisms of “equivalent means” were confirmed at this meeting as legislation (including executive authority) and a reduction in future funding, provided there is a history of enforcement. The IPSASB also decided to refer to two-way enforceability between the parties to an arrangement, clarifying that third-party beneficiaries do not have enforcement rights.

The IPSASB noted the potential for confusion with IFRS 15 references to “distinct” goods or services and “distinct” promises to transfer goods or services, and decided to refer instead to “separately identifiable” and “sufficiently specific” respectively. This reflects the AASB’s reference to requiring promises to be sufficiently specific to be able to determine when the performance obligation is satisfied, which was considered by the IPSASB.

A number of public sector-specific issues will be further considered, including:

- the criterion in IFRS 15 for applying the performance obligation approach that it is probable that the entity will collect the consideration to which it will be entitled, since public sector entities may enter into many binding arrangements where the collectability of the consideration is not probable due to concessions;
- the suitability of the disclosure requirements; and
- appropriate illustrative examples, whether from IFRS 15 or additional public sector examples.

IPSAS 23 Update

Non-enforceable time restrictions would be covered under an updated IPSAS 23, with recognition of revenue when amounts are receivable, rather than over time. The IPSASB will consider at the next meeting examples of binding arrangements without performance obligations (such as capital grants and research grants), taxes and appropriations. Presentational approaches will also be considered.

Non-Exchange Expenses – Grants, Contributions, Other Transfers

The IPSASB discussed the scope of the draft Exposure Draft, agreeing to cover transactions with or without performance obligations for the resource recipients, but intending to exclude commercial

transactions. An example to be considered further is whether to cover research grants where the research is provided to the purchaser. Terminology and definitions were also considered, with the term “contributions” likely to be dropped and the terms “grants” and “transfers” to be reassessed in comparison with GFS terminology.

The PSPOA for expenses should complement the PSPOA for revenue, and so the IPSASB will also address the approach to premiums (consideration in excess of the fair value of services to be transferred) and potential overlaps with service concession arrangements.

The accounting for grants and other transfers is to be developed further in conjunction with the IPSAS 23 revisions. Presentation requirements are to be considered at the September 2019 meeting in conjunction with the revenue EDs.

The IPSASB published Exposure Draft ED 67 *Collective and Individual Services and Emergency Relief* at the end of January, with submissions due by 31 May. The ED proposes the addition of application guidance to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

Leases

The approach to resolving the lessor accounting issues raised in the responses to ED 64 *Leases* (issued in January 2018) was discussed at the meeting. The project Task Force will reconsider the lessor accounting proposed in ED 64, which would diverge from IFRS 16 rather than retain the operating lease/ finance lease distinction. The IPSASB plans to confirm or reject the divergence from IFRS 16 at the June meeting.

The ED proposed that a lessor would recognise a lease as a separate resource (a lease receivable) to the underlying asset, which would continue to be recognised by the lessor. A bare majority of the respondents to ED 64 agreed with departing from the IFRS 16 model, but most of those did not then agree with the ED’s proposed accounting. Furthermore, just under half of the respondents agreed with the proposal that a lessor would recognise the subsidy provided to the lessee under concessionary leases as an immediate expense, with a corresponding credit to the unearned revenue liability, which would be recognised as revenue over the lease term.

Heritage

The scope of this project was discussed, with the IPSASB agreeing to concentrate on the recognition and measurement of heritage in financial statements, and not extend it to additional stewardship matters such as service performance, budget reporting, and long-term sustainability reporting.

The Task Force is to consider a range of issues for the June meeting, including the following:

- whether an operational/non-operational distinction in how heritage assets are used by an entity is helpful
- control in relation to collective ownership or custodianship
- classifying issues raised in responses to the Consultation Paper (April 2017).

Future work is expected to address the definition of heritage, general or specific measurement guidance and whether qualitative disclosures are required where there are measurement difficulties.

Public Sector-Specific Financial Instruments

The IPSASB's Financial Instruments Task Force is working on this project outside Board meetings. This project is considering the accounting for monetary gold, currency in circulation, IMF quota subscriptions and IMF special drawing rights, based on a 2016 Consultation Paper.

The Task Force met in October 2018 to consider whether those public sector-specific financial instruments are financial instruments covered by IPSAS 41 *Financial Instruments*. If so, then the Task Force assessed whether additional guidance should be added to IPSAS 41. If not, then the Task Force will develop recommendations for guidance, e.g. a new IPSAS, add to IPSAS 41 guidance, or staff Q&As.

The IPSASB requested the Task Force to prepare a draft Exposure Draft based on its views. This is expected to be considered at the IPSASB's June 2019 meeting.

2 Operational and Strategic Matters

Meeting Attendance, Board Membership and Staffing

The total membership complement comprises 18 members. All members attended the meeting.

The IPSASB currently has its full complement of eight full-time technical staff. In addition, the staff member who resigned at the end of 2018 will continue to provide significant time during the first half of 2019 to IPSASB projects as agreed with the Technical Director.

Board Appointments

The three new members from the start of 2019 were appointed for three years and are eligible for reappointment:

- Luzvi Chatto (The Philippines) – works for and nominated by The Commission on Audit;
- Adrienne Cheasty (UK) – self-nominated – recently retired from the IMF (USA) and now working at the European Studies Centre, Oxford; and
- Lynn Pamment (UK) – PwC partner; nominated by CIPFA.

Strategic Matters

Public Interest Committee

The IPSASB Chair and senior staff met in March 2019 with the Public Interest Committee (PIC), which oversees the activities of the IPSASB in the public interest. The PIC comprises representatives from the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Supreme Audit Institutions (INTOSAI).

The PIC complimented the IPSASB on its 2018 achievements, including the publication of IPSAS 42 *Social Benefits*, the use of public roundtables in developing the Strategy and Work Plan, and the operation and contribution of the Consultative Advisory Group (CAG). However, the PIC noted that no significant IPSAS were planned for issue in 2019 and asked whether any Standards scheduled for 2020 could be brought forward.

The PIC also discussed the review of the IPSASB's governance arrangements that is due in 2020, suggesting that this does not appear to require a major review given the short time during which the

current arrangements have been in place and the lack of significant concerns over the IPSASB's terms of reference and governance practice.

IPSASB Strategy and Work Plan 2019-2023

The IPSASB published its Strategy and Work Plan 2019-2023 at the end of February, sub-titled *Delivering Global Standards. Inspiring Implementation*. A feedback statement has also been published.

The overarching strategic objective is Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS. This is to be delivered through two main areas of activity, both of which have a public interest focus: developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector; and raising awareness of IPSAS and the benefits of accrual adoption.

The Work Plan will include two new projects: natural resources, and a limited review of the IPSASB Conceptual Framework, the latter to look at the IASB's revised Conceptual Framework. The Consultative Advisory Group (CAG) had expressed concern that discount rates and differential reporting projects were not added to the work plan.

IFAC Strategy

The IFAC CEO, Kevin Dancey, presented to the IPSASB on the IFAC Strategic Plan 2019-2020. Mr Dancey discussed how the IFAC creates value through its activities, and noted various ways in which the IFAC supports the IPSASB and its work. These include leading or contributing to initiatives to encourage the adoption of IPSAS, increased funding for the IPSASB relative to the other standard-setting boards, and developing the IPSASB member nominations strategy.

IASB Liaison

The IPSASB will meet in March 2019 with IASB members and staff, to discuss projects such as lease accounting (the IPSASB's lessor accounting proposals differ from IFRS 16), natural resources and the IASB's extractive activities research, and public sector-specific financial instruments. How the Boards could work together is expected to be discussed as well.

No IASB member or staff has attended an IPSASB meeting for some time now.

European Public Sector Accounting Standards

Eurostat is co-ordinating the European Commission project to consider the development and promulgation of European Public Sector Accounting Standards (EPSAS). The IPSASB Standards are likely to provide a foundation for the European Standards, but there are likely to be some differences. No time line is indicated.

The Eurostat observer reported to the meeting that the co-ordinating EPSAS Working Group will meet next in May, discussing topics including service concession arrangements, consolidation, and chart of accounts. An impact assessment is being prepared.

3 Future IPSASB Meetings

Dates	Location	Host
18–21 June 2019	Toronto, Canada	Chartered Professional Accountants Canada
24–27 September 2019	Lisbon, Portugal	Ministry of Finance, Portugal
10–13 December 2019	Abu Dhabi, UAE	Department of Finance, Abu Dhabi
10–13 March 2020	New York, NY, USA	

Related meetings

Dates	Location	Meeting
17 June 2019	Toronto, Canada	IPSASB Consultative Advisory Group
24–25 June 2019	Niagara-on-Lake, Canada	Public Sector Standard-Setters Forum
9 December 2019	Abu Dhabi, UAE	IPSASB Consultative Advisory Group

4 Outreach Prior to the IPSASB Meeting

The IPSASB, the World Bank Group and the International Monetary Fund held a seminar the day before the IPSASB meeting. The seminar was titled *Leveraging Government Financial Reporting for Fiscal Policymaking and Management of Public Wealth*.

The seminar was attended by many World Bank and IMF staff who deal with financial reporting, governance and public sector development matters in developing countries. The seminar covered a range of topics under the following sessions:

- Using balance sheet information for decision making and fiscal risk management;
- The balance sheet: Improving asset management;
- The balance sheet: Liabilities management; and
- Maximizing the impact of IPSAS-based financial information: Implementation capacity and digital transformation.

Some presenters referred to a major database *Fiscal Monitor* (October 2018) developed by the IMF, covering asset and liability data for 31 countries (covering approximately 60% of global GDP). Major asset and liability categories were compared with national GDP figures, such as financial assets amount to 99% of GDP, infrastructure assets 72%, debt 94% and pension liabilities 46%. Net equity was roughly equivalent to 20% of GDP.

Future assets (e.g. right to tax) and future liabilities (pensions) also covered. The view from an analyst (Emerging Markets Investors Alliance) presenting to the seminar was that the best approach is to consider balance sheet information, not just debt, as crises are likely to come from non-debt sources.