

MEETING HIGHLIGHTS

December 2012

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For more detailed information about IPSASB projects, please refer to the project summaries under [Current Projects](#).

Conceptual Framework

Phase 1—Role and Authority; Objectives and Users; Qualitative Characteristics; and Reporting Entity

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) is being developed in phases. At this meeting, the IPSASB reviewed and, after some minor revision, unanimously approved for issue the first four chapters of the *Conceptual Framework*, as follows:

- Chapter 1: Role and Authority of the Conceptual Framework;
- Chapter 2: Objectives and Users of General Purpose Financial Reporting;
- Chapter 3: Qualitative Characteristics; and
- Chapter 4: Reporting Entity.

Following approval of the Phase 1 chapters the IPSASB considered whether Appendix A to IPSAS 1, *Presentation of Financial Statements*, should be withdrawn on issue of the Phase 1 chapters. Appendix A of IPSAS 1 describes the qualitative characteristics (QCs) that underpin the current suite of IPSASs. The IPSASB decided that the mechanism and timing for withdrawal of Appendix A of IPSAS 1 should be considered at a future meeting together with other potential consequential changes to IPSASs resulting from issue of the Phase 1 chapters. The 2013 IPSASB Handbook will clarify that, while Appendix A is still authoritative for existing IPSASs, the QCs in the *Conceptual Framework* will be applied in the development of future IPSASs and Recommended Practice Guidelines.

The Preface to the *Conceptual Framework*

The IPSASB considered a Preface, based on the ED, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)*. The IPSASB confirmed that, subject to processing of the amendments identified, the *Conceptual Framework* should include the Preface. The IPSASB directed that the Preface be further developed and presented at the next IPSASB meeting for approval.

Phase 4—Presentation in General Purpose Financial Reports

The IPSASB reviewed a draft Exposure Draft (ED), *Presentation in General Purpose Financial Reports* and provided direction to Staff for further development of the ED.

With respect to the draft ED's description of (a) terminology (presentation, display and disclosure) and (b) overall approach to presentation, the IPSASB directed that the ED should take a more decision focused approach to describing the overall approach. The display/disclosure distinction should be integrated into that presentation decision approach, instead of being a separate section in the ED. The IPSASB tentatively agreed on the proposal to include application of the constraints on information as part of the overall approach. The presentation objectives proposed in the draft ED should be revised so that they are more generic. The objective for financial statements should be simplified to exclude specific reference to reporting on cash and on budget performance, while leaving open the possibility that such reporting is treated as a subset within the financial statements information area. A generic objective for presentation should be developed. The three presentation concepts should be rationalized, while remaining focused on the three presentation decisions.

The revised ED should address when information should be shown (a) in the financial statements as opposed to the more comprehensive scope GPFRs, (b) in the notes to the financial statements as opposed to element recognition, and (c) in the notes to the financial statements as opposed to disclosure in the more comprehensive scope GPFRs. Element recognition should be integrated into the discussion of display in financial statements, and the relationship between element recognition and information displayed in financial statements should be addressed.

A further draft ED will be considered for approval at the March 2013 meeting.

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Consultation on the IPSASB's Work Program 2013–2014

The IPSASB had a preliminary discussion of the responses to the public consultation on the IPSASB's work program for 2013–2014. The number of additional projects to be initiated as well as the specific projects will be further discussed in March 2013 with decisions taken following those discussions. The IPSASB discussed a number of factors to be considered in project selection, including the IPSASB's strategic areas of focus, committed projects, the existing MOU between IFAC and the International Accounting Standards Board, the emphasis on addressing public sector specific projects, the need to maintain existing IPSASs, as well as staff and board resources. Members discussed the need to weigh a variety of factors in ultimately coming to decisions on which projects should be selected, including addressing the gaps in current standards and assessing items in the context of importance and urgency. The IPSASB also agreed that the process for the broader more strategic consultation planned for the period post 2014 should be commenced early in 2013 with a view to issuing this near the end of 2013 or early in 2014 to be well positioned once the *Conceptual Framework* project is complete.

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Service Performance Reporting

The IPSASB continued its review of the responses to the Consultation Paper (CP), *Reporting Service Performance Information*, addressing a number of preliminary views and specific matters for comment (SMC).

The IPSASB directed staff to undertake further work to develop criteria for the determination of the status of documents that the Board produces. These criteria will be considered at a future meeting so that the IPSASB can make an assessment as to the most appropriate type of guidance for service performance reporting.

The IPSASB discussed responses to preliminary views 3 and 4 related to the components of service performance information and the qualitative characteristics of information and pervasive constraints on the information. Given the strong support generally for both preliminary views the IPSASB affirmed these positions as they relate to service performance reporting.

For SMC 2, the IPSASB agreed that the project should not identify indicators of service performance.

SMC 3 questioned whether service performance information included in general purpose financial reports (GPFRs) should be prepared for the same reporting entity as for general purpose financial statements (GPFs). The IPSASB confirmed this position based on feedback from respondents.

SMC 4 related to the four dimensions of service performance reporting identified in the CP: (a) information on a public sector entity's objectives, including the need or demand for these objectives to be achieved (the "why" dimension), (b) input, output, outcome, efficiency, and effectiveness indicators, including service recipient perceptions or experience information (the "what" dimension), (c) comparisons of actual performance to projected (or targeted) results, including information on the factors that influence results (the "how" dimension), and (d) time-oriented information, including comparisons of actual results over time and to milestones (the "when" dimension). The IPSASB generally agreed that the four dimensions of service performance information included in the CP are necessary to meet the needs of users identified in chapter 2 of the *Conceptual Framework*.

Lastly, SMC 5 questioned whether service performance information should be reported (a) as part of the GPFR that is currently issued (for example, an annual financial report) but not as part of the GPFs, (b) in a separately issued GPFR, or (c) in both a separately issued GPFR and as part of the currently issued GPFR. The IPSASB tentatively agreed that the guidance should not prescribe where a public sector entity reports service performance information but rather provide that all service performance information could be reported in either the currently issued GPFR or in a separately issued GPFR.

The IPSASB thank the Governmental Accounting Standards Board (GASB) in the United States for providing staff support on this project to this point and is grateful for the expertise as the project transitions to a new IPSASB staff member. The IPSASB will further discuss the project and the type of guidance in 2013.

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Financial Statement Discussion and Analysis

The IPSASB discussed whether or not to continue to develop the draft IPSAS, *Financial Statement Discussion and Analysis* (FSDA), which has been developed from ED 47, into an authoritative standard. There were two main areas of discussion: (a) audit and assurance issues and (b) the need for criteria to

be developed for the determination of the status of a document, i.e., should a document become an authoritative standard or non-authoritative guidance.

Several members expressed concerns that entities will have problems asserting compliance with IPSASs applicable to the general purpose financial statements (GPFSS) if they do not follow the proposed requirements in the draft IPSAS even though FSDA, as defined in ED 47, is not a component of the GPFSS. The IPSASB directed staff to contact both the International Auditing and Assurance Standards Board (IAASB) and the International Organisation of Supreme Audit Institutions (INTOSAI) about this issue.

Several members considered that the draft FSDA IPSAS should continue to be developed into an authoritative standard. It was suggested that this is consistent with the IPSASB's decision to develop its *Conceptual Framework* to apply to general purpose financial reports (GPFRs) rather than the more limited scope GPFSS, because FSDA is critical to an entity meeting the accountability objective of general purpose financial reporting.

The IPSASB directed staff to continue to develop the draft FSDA IPSAS into an authoritative standard. The issue of the status of the draft FSDA IPSAS will be considered when criteria have been developed for the determination of the status of a document.

The IPSASB agreed that a revised draft standard will be considered at the March 2013 meeting.

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First-Time Adoption of Accrual Basis IPSASs

The IPSASB discussed the revised approach for the assessment of transitional provisions and broadly agreed that the basket classifications for transitional provisions should be labeled as category 1 and category 2 transitional provisions. Members generally supported the view that category 2 transitional provisions should be provided because of practical considerations. Members generally supported the view that, while applying a category 2 transitional provision, entities should not be permitted to assert compliance with accrual basis IPSASs or be permitted to assert a fair presentation in accordance with accrual basis IPSASs. It was proposed that entities which use category 2 transitional provisions should disclose that they are “in transition to accrual basis IPSASs”.

The IPSASB discussed the revised assessments of proposed transitional provisions for IPSASs 1–18. The Board provided staff with further directions for refinement of the proposed transitional provisions.

The IPSASB also had an initial discussion of the assessments of proposed transitional provisions for IPSASs 19–22, 24, 26, 27 and 31 and provided staff with further directions.

Finally, the IPSASB considered the reconciliation requirements on first-time adoption of accrual basis IPSASs and expressed the view that entities should only be required to present a reconciliation of net assets/equity reported in accordance with their previous basis of accounting to net assets/equity reported in accordance with accrual basis IPSASs, at the date of transition to IPSASs. Entities which have applied the cash basis under their previous basis of accounting are required to present a reconciliation of cash balances if the ending cash balance under their previous basis of accounting and the cash balance in the opening accrual basis IPSAS statement of financial position are different.

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Reporting on the Long-Term Sustainability of an Entity's Finances

The IPSASB considered a draft Recommended Practice Guideline (RPG), *Reporting on the Long-Term Sustainability of an Entity's Finances*, which has been developed from ED 46. As part of this review, the IPSASB discussed a proposal to change the name of the vulnerability dimension in ED 46 to "revenue capacity." The IPSASB tentatively agreed to change the name to "revenue vulnerability" and consequently, will consider developing a new term for the fiscal capacity dimension. Staff was directed to clarify the links between the dimensions in the draft RPG and include an explanation that changes in one dimension can affect the other two dimensions.

The draft RPG also included a proposal to insert a definition of a projection, as follows: "A projection is prospective financial information prepared on the basis of supportable assumptions about the entity's policies, future economic and other conditions." The IPSASB discussed this proposal and considered that the phrase "supportable assumptions" is vague and does not clearly articulate that the draft RPG requires the projections to be based on current policy with some limited exceptions. The IPSASB directed staff to consider whether a clearer term could be used instead of "supportable assumptions."

Consistent with the IPSASB's earlier decision to defer its discussion of the status of the draft IPSAS, *Financial Statement Discussion and Analysis* until criteria have been developed for the determination of the status of a document, the discussion of the status of the draft RPG has also been deferred.

The IPSASB agreed that a revised draft RPG will be considered at the March 2013 meeting.

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Update of IPSASs 6–8

The IPSASB provided feedback on issues arising from the development of three Exposure Drafts (EDs):

- ED X, *Consolidated Financial Statements* (based on IFRS 10);
- ED X, *Joint Arrangements* (based on IFRS 11); and
- ED X, *Disclosure of Interests in Other Entities* (based on IFRS 12).

In relation to ED X, *Consolidated Financial Statements* the IPSASB considered whether there should continue to be an exemption for temporarily controlled entities. The IPSASB considered three options:

- **Option A:** Remove the temporary control exemption. Under this option a controlling entity would consolidate temporarily controlled entities;
- **Option B:** Make the temporary control exemption more restrictive. Under this option a controlling entity would account for temporarily controlled entities at cost or fair value (as per the separate financial statements of the controlling entity); and
- **Option C:** Require equity accounting of temporarily controlled entities.

The IPSASB agreed to further consider Options A and C at its March 2013 meeting. The agenda papers for that meeting should consider the possible application of equity accounting to various categories of controlled entities, including entities that have been rescued from financial distress and Government Business Enterprises.

In relation to ED X, *Joint Arrangements* the IPSASB tentatively agreed on the definitions of joint ventures and joint arrangements. The IPSASB noted that IFRS 11 no longer permits the use of proportionate consolidation and confirmed that joint ventures should be accounted for using the equity method.

In relation to ED X, *Disclosure of Interests in Other Entities* the IPSASB considered the appropriateness of the concept of structured entities and the disclosures in respect of structured entities. Concerns were raised that the definition of a structured entity in IFRS 12 would be inappropriate in the public sector as it could apply to a high proportion of public sector entities. The IPSASB had an initial discussion of the types of entities in respect of which disclosure of exposure to financial and operating risk could be appropriate. The IPSASB agreed to consider this issue further, having regard to the risk disclosures currently required by IPSASs.

The draft EDs based on IFRS 11 and IFRS 12 will be further considered at the IPSASB's March 2013 meeting. The draft ED based on IFRS 10 will be provided to inform the discussion of remaining issues, however, it will not be considered in detail. In addition the IPSASB will consider draft EDs based on IAS 27, *Separate Financial Statements (2011)*; and IAS 28, *Investments in Associates and Joint Ventures (2011)*.

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Next Meeting

The next IPSASB meeting will be held in Abu Dhabi, United Arab Emirates on March 11–14, 2013.