

## PROJECT HISTORY

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### June 2015

The IPSASB discussed an Issues Paper that considered aspects of the draft Exposure Draft 56 (ED 56), *The Applicability of IPSASs to Public Sector Entities*, and reviewed the ED.

#### *Title of the ED 56*

The IPSASB decided to remove the wording “to Government Business Enterprises and Other Public Sector Entities” from the title of the ED 56 because the project broadened to consider the more general applicability of IPSASs.

#### *Revision of the Preface*

The IPSASB approved the revision to the *Preface to International Public Sector Accounting Standards*. The IPSASB adopted the following draft description of the characteristics of public sector entities:

*The IPSASs are designed to apply to public sector entities<sup>1</sup> that:*

- (a) Are responsible for the delivery of services<sup>2</sup> to benefit the public and/or to redistribute income and wealth;*
- (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment; and,*
- (c) Do not have a primary objective to make profits.*

#### *Deletion of black and grey letter references to GBEs in the scope sections of IPSASs and RPGs*

The IPSASB decided to remove the black and grey letter references to GBEs in the scope sections of IPSASs and RPGs, to remove the reference to GBEs in paragraph 3 of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, and replace in the paragraph 3 of IPSASs 24, *Presentation of Budget Information in Financial Statements* the term “Government Business Enterprises” with the term “commercial entities”.

#### *Approval of the ED and Exposure Period*

The IPSASB **approved ED 56, *The Applicability of IPSASs***. Fifteen Members voted in favor, with three absentees. The IPSASB agreed that the comment period would be four months.

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<sup>1</sup> Paragraph 1.8 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* identifies a wide range of public sector entities for which IPSASs are designed.

<sup>2</sup> Services encompasses goods, services and policy advice.

## August 2014

IPSASB issues Consultation Paper, [\*The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities\*](#).

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## June 2014

Staff outlined that in accordance with directions at the March 2014 meeting the CP:

- Included Option 1b, which would enhance alignment with the statistical bases of accounting;
- Included an analysis of the impact of each option on convergence with (i) Government Finance Statistics (GFS) reporting guidelines and; (ii) the Preface to IPSASs and current IPSASs; and,
- Had been restructured.

### *Approach to evaluating impact of options on convergence with GFS reporting guidelines*

Members expressed concerns that the inclusion of a lengthy analysis of the consequences for convergence with GFS in each option biased the CP too heavily towards Option 1b. The IPSASB decided to retain Option 1b, but directed that the paragraphs on the consequences of the options for convergence with GFS reporting guidelines and for the Preface to IPSASs and current IPSASs should be deleted.

### *Confirmation of the revised title*

Responding to a TBG member's view that the CP is primarily concerned with the scope of IPSASs rather than just GBEs the IPSASB decided that the title of the CP should be: *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*.

### *Preliminary view*

The IPSASB expressed a unanimous preliminary view (PV) in support of **Approach 1**: Do not define a Government Business Enterprise (GBE), but describe the characteristics of public sector entities for which the IPSASB is developing standards. Within this approach a majority of IPSASB members supported **Option 1a**: Use terminology from the IPSASB literature.

### *Exposure Period of the CP*

The IPSASB approved an exposure period of four months.

### *Approval of the CP*

The IPSASB approved the CP by 17 votes in favor with zero against, no abstentions and two members absent.

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## March 2014

The IPSASB considered key issues identified by staff and reviewed a second draft of a Consultation Paper (CP), *Government Business Enterprises*. The main changes from the first draft of the CP were the addition of:

- (i) A third approach which aims to enhance convergence between IPSASs and government finance statistics (GFS) guidelines;
- (ii) Indicators for borderline cases in Approach 1 in which the IPSASB would not retain the definition of a Government Business Enterprise (GBE), but would provide the high level characteristics of entities for which the IPSASB is developing standards; and

- (iii) Replacement of the term 'non-market basis' with the term 'non-commercial basis' in Approach 1;

The third approach would not retain the definition of a GBE. This additional approach would seek to promote convergence with GFS by (i) introducing a definition of "a public corporation"; (ii) supplementing this definition with the characteristics of public sector entities for which the IPSASB is developing IPSASs that approximate those in the GFS description of the General Government Sector to the maximum extent possible; and (iii) providing guidance for borderline cases drawn from GFS. The descriptions of the characteristics of public sector entities would be complemented by material from the Conceptual Framework.

There was general support for this third approach to be included in the CP, but as a second option in Approach 1 rather than as a totally separate approach.

In order to provide guidance on borderline cases, four indicators had been included in Approach 1 to facilitate an assessment of whether the entity is a public sector entity for which the IPSASB is developing IPSASs. These are:

- (a) The entity is pursuing an economic or social policy stated by the government;
- (b) The entity follows orders/instructions from the government to pursue its own business;
- (c) The entity sells goods and services, in the normal course of business, without a profit;
- (d) Is reliant on continuing government funding or guarantees to be a going concern (other than purchases of outputs at arm's length).

The IPSASB directed that further explanation of the indicators is necessary. The IPSASB also directed that Staff consider and make explicit the implications of all the options in Approach 1 and Approach 2 on alignment between IPSASs and GFS. In addition the IPSASB directed that the CP should be restructured so that the summary of the range of controlled entities in the public sector precedes discussion of the current approach and issues with current definition of a GBE and the approach in GFS. The IPSASB agreed to further consider the CP at the next meeting.

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## **December 2013**

The IPSASB considered key issues identified by staff and reviewed a first draft of a Consultation Paper (CP), *Government Business Enterprises*. The CP:

- (i) Summarized the current definition of a Government Business Enterprise (GBE) in IPSAS 1, *Presentation of Financial Statement*, and further references to GBEs in IPSAS 1 and elsewhere in IPSASB's literature;
- (ii) Highlighted the approach in Government Finance Statistics to determining whether a unit is a public corporation or quasi-corporation;
- (iii) Briefly discussed the range of public sector controlled entities;
- (iv) Discussed the approach of the International Accounting Standards Board in communicating its view of the entities for which it develops International Financial Reporting Standards; and
- (v) Considered some of the main issues with the current definition of a GBE.

The draft CP then explored two main approaches for dealing with the issue of GBEs. Under Approach 1 there would be no formal definition of GBEs in IPSASs. Instead the IPSASB would provide the characteristics of public sector entities that it considers when developing IPSASs. Under Approach 2 the

IPSASB would continue to define GBEs, but would modify the current definition. There were two options under this approach. Under the first option the definition would be clarified; under the second option the definition would be narrowed. The first option would include the ability of an entity to contract in its own name as an indicator that an entity is a GBE, but would not retain it as a condition. The first option would also seek to provide further guidance that the terms:

- “To other entities” in the context of the condition in the current definition that “an entity sells goods and services, in the normal course of business, to other entities at a profit or full cost recovery” refers to entities outside the reporting entity;
- “Full cost recovery” means recovery of all fixed and variable costs in the reporting period; and
- “Not reliant on continuing government funding” might be clarified to mean that any such funding is a small proportion of an entity’s total income and would distinguish annual government funding from less frequent funding.

The second option would narrow the definition by including a requirement that GBEs have a profit-seeking rather than just a cost-recovery objective and exclude from the definition entities reliant on government guarantees, community service grants or other government funding in order to continue as going concerns.

The two options in Approach 2 are not mutually exclusive. The second option could therefore include some of the clarifications in the first option.

There was general support for the approach in the CP and for a Preliminary View that the IPSASB favors Approach 1. However, it was suggested that (i) the objective of the CP should be clearer and more strongly linked to the satisfaction of user needs, in particular whether standards focusing on investor needs, are appropriate for many public sector controlled entities that do not have a profit-seeking objective; and (ii) that Approach 1 could be supplemented by providing indicators of entities that might be expected to adopt accounting standards for profit-seeking entities rather than IPSASs. Some reservations were also expressed that option (b) in Approach 2 is impractical and that very few entities would meet such a revised definition. The IPSASB agreed to further consider this issue at the next meeting in March 2014.

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## **June 2013**

The IPSASB discussed a number of issues raised in relation to the current definition. The IPSASB noted that within the current definition the term “full cost recovery” may be understood to mean different things. The IPSASB commented that in the context of the term “not being reliant on continued government funding to be a going concern” governments have many ways of supporting entities and therefore this could have different meanings. The IPSASB noted that the current definition does not take into account the entity’s legal form and that difficulties in interpreting the definition may also arise from local debates on whether an entity is a public sector entity.

Given the wide spectrum of entities currently described as GBEs by jurisdictions, the IPSASB considered there would be difficulty in achieving a definition which would be accepted internationally and proposed that instead of a definition the IPSASB might consider providing indicators of the characteristics of entities which each jurisdiction would consider in specifying the reporting framework of each GBE. The IPSASB considered going forward that it is important to separate and define clearly businesses and services since the objectives are different. The IPSASB also pointed out the need to consider whether markets operate in a regulated or non-regulated environment and suggested distinguishing entities where the government is the only customer.

The IPSASB affirmed that the decision on whether to apply IPSAS, IFRS or local country private sector GAAP to any public sector entity would be taken by the relevant regulator in an individual jurisdiction.

The IPSASB directed that, as a next step, staff develop a consultation paper proposing the characteristics of entities which jurisdictions should consider when deciding whether to apply IPSASs to a public sector entity.

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### **March 2013**

The IPSASB had a brief discussion on the GBEs project, noting that it is in the initial research stages. The project will consider whether the current definition of GBEs is appropriate and the IPSASB's preliminary discussions indicated a need to start with a more detailed review of the current definition. The project will also address as a subsequent issue whether GBEs should continue to apply IFRSs. In terms of how GBEs should be accounted for within a government's financial statements, the IPSASB agreed that this issue would be addressed in the project to amend IPSAS 6, *Consolidated and Separate Financial Statements*.

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### **December 2012**

Staff allocated and project activated. Information survey issued to board members on current practice.

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### **March 2012**

The IPSASB confirmed the project brief on GBEs and agreed to commence work once staff resources became available.