

To: IAESB
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International Public Sector Accounting Standards Board (IPSASB) –2018Q1 Activity Report

Current Work Program Initiatives

Strategy and Work Plan Consultation

The IPSASB issued its Strategy and Work Plan 2019-2023 Consultation Paper (CP). In order to complement the normal CP response process, for the first time IPSASB has arranged four Regional Roundtables (Africa, Europe, Latin America and SE Asia) and other less formal local Roundtables. They are being held in partnership with regional and local organizations.

Accountancy Europe hosted the first of these Regional Roundtables in their Brussels HQ on March 28th. Around 50 participants engaged with IPSASB Chair, Ian Carruthers and four of IPSASB's European-based IPSASB members on IPSASB's proposed strategic objective, five supporting themes and work plan proposals.

Overall, participants generally supported the proposed strategic objective's location of IPSAS-based accrual reporting within broader public financial management and the five themes. There was particular support for IPSASB continuing to focus its resources on developing public sector specific standards. Many participants had reservations about IPSASB's proposed project on Natural Resources, although it was accepted that it is a priority in other parts of the world. The IPSASB Chair felt this issue was emblematic of the challenges of being a global standard-setter.

Participants made a number of constructive and insightful proposals for improving the Strategy both during the meeting, and in their written feedback. The meeting forms part of IPSASB's formal due process, and it will give full consideration to these suggestions in finalizing the Strategy and Work Plan. Overall, the first Roundtable was a great success.

The other three regional roundtables are being held in the period late April though to end May, and are projected to attract over 250 participants from around 80 countries.

Social Benefits

At the March meeting Staff gave a presentation on ED 63, *Social Benefits*, highlighting key issues that are expected to be relevant to the related Non-Exchange Expenses project. Staff noted areas where respondents to the Revenue and Non-Exchange Expenses CP had indicated the importance of consistency with the Social Benefits project. The IPSASB considered that the definition of social benefits, as against universally accessible services and collective services will be critical and would be discussed at the June meeting. This meeting will also take key decisions on when the obligating event occurs (having a major impact on the size of provisions, and future work on Long-term Financial Sustainability).

Public Sector Measurement

The Measurement project's main focus is on application of the Conceptual Framework to the IPSAS standards level, and the extent to which the IASB's definition of fair value in IFRS 13, *Fair Value Measurement* can be adopted in the public sector.

The IPSASB reviewed draft wording for several sections of the Exposure Draft (ED) *Measurement*, and the first three chapters of the Consultation Paper, *Public Sector Measurement*. The principles-based ED, which will not include consequential amendments, will be included in the CP in order to get early feedback on the proposed approach—a new initiative by the IPSASB. The IPSASB agreed a preliminary view that borrowing costs related to the acquisition, construction, or production of qualifying assets should be expensed.

Revenue

The IPSASB discussed the responses to the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* (Revenue and Non-Exchange Expenses CP). The IPSASB agreed that a new IPSAS based on IFRS 15, *Revenue from Contracts with Customers*, should be developed to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*. The IPSASB also agreed that IPSAS 23, *Revenue from Non-Exchange Transactions (Tax and Transfers)*, should be updated to address application issues identified by constituents.

Staff were also directed to develop examples in order to allow the Board to confirm its tentative decision to adopt the Public Sector Performance Obligation Approach (PSPOA) for those grants and other transfers, and other types of transaction, on the current exchange / non-exchange borderline.

On the key issue of accounting for transactions with time requirements there was a varied response to the options presented. The IPSASB also discussed accounting for capital grants and services in-kind, noting that there was strong support for explicit requirements and guidance on capital grants and a mix of views on whether IPSASB's existing requirements and guidance on services in-kind should be made more rigorous by requiring rather than permitting recognition.

Non-Exchange Expenses

The IPSASB discussed the responses to the IPSASB's preliminary views on non-exchange expenses in the Revenue and Non-Exchange Expenses CP, and especially noted the views on interactions with other projects, particularly Social Benefits (see also above).

While there was considerable support for the preliminary views expressed in the CP some respondents questioned the view that no present obligation, on the part of the provider, arises for collective services, such as defense and street lighting, and universally accessible services, such as education and healthcare. There was also a varied response on whether any non-exchange expenses arise for collective services and universally accessible services, or whether all the expenses related to their provision are exchange in nature.

The IPSASB directed staff to further develop definitions, and to further consider the Public Sector Performance Obligation Approach for non-exchange expenses, for the next meeting. There was less support for this approach than in the context of revenue (see above). There are also differing views as to the extent that symmetry between the accounting by resource providers and resource recipients is both desirable and feasible.

Staff reported on the response to the proposals on both non-contractual receivables and non-contractual payables. They noted that there was considerable support for the proposed approach for the initial measurement of non-contractual receivables, but a more varied response on subsequent measurement. On non-contractual payables while there was no consensus on the appropriate treatment, the Board formed a tentative view that there is little practical difference between the two most favored approaches. The IPSASB agreed to discuss non-contractual receivables and non-contractual payables again when further progress had been made on other areas of the project.

Financial Instruments (Core and Public Sector Specific)

IPSASB's work on financial instruments comprises two streams—a core stream which aims to maintain alignment with International Financial Reporting Standards, specifically IFRS 9, *Financial Instruments*, and a stream that is developing requirements and guidance for a number of public sector specific items.

Core

The first stream led to the publication of Exposure Draft (ED) 62, *Financial Instruments*, in late 2018. ED 62 proposed requirements in IFRS 9, notably in areas such as classification, impairment and hedge accounting.

The IPSASB reviewed responses to ED 62 at the March meeting. Respondents strongly supported the principles in the ED. Issues identified by respondents related primarily to clarifying the application of these principles to complex

transactions. They included distinguishing between a concessionary loan and an originated credit impaired loan, measuring fair Value of non-cash-generating equity instruments.

The IPSASB agreed that the Financial Instruments Task Force should consider the issues raised by respondents on its behalf and propose changes, where appropriate, to the draft standard. The Task Force's recommendations will be considered at the June IPSASB meeting, where the Board is aiming to approve the final pronouncement.

Public Sector Specific

The public sector specific stream deals with a number of areas with similarities to financial instruments such as monetary gold, currency in circulation and certain IMF transactions. At the March meeting the IPSASB held a brief discussion and agreed the project management approach. The Financial Instruments Task Force will develop non-authoritative guidance out of Board sessions. The guidance should align as closely as possible with the IPSASB's core Financial Instruments standards.

Improvements

The IPSASB approved ED 65, *Improvements to IPSAS, 2018*. This ED includes a number of IPSAS specific improvements as well as others to maintain convergence with IFRS. This latter group draw on the IASB's recent improvements and narrow scope amendment projects as well as recent pronouncements of the International Financial Reporting Interpretation Committee.

A second ED incorporating IASB amendments related to IFRS 9, Financial Instruments was also approved, and will be issued once the IPSASB's new *Financial Instruments* standard is issued (see above).