INTERNATIONAL FEDERATION OF ACCOUNTANTS

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: http://www.ifac.org

Tel: (212) 286-9344
Fax: (212) 286-9570

DATE: 1 JUNE 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE
SUBJECT: **IAS/IFRS HARMONIZATION POLICY**

ACTION REQUIRED

The Committee is asked to:

- **review** the proposed strategy for harmonization of IPSASs with IASs/IFRSs; and
- **agree** the strategy or provide staff with directions regarding its amendment.

AGENDA MATERIAL:

	Pages
12.2 PSC-IAS/IFRS harmonization Policy	12.6-12.50
12.3 Work Program 2004-2009	12.51-12.52

BACKGROUND

The IASB is moving rapidly ahead with an extensive work program that includes issuing new IFRSs and authoritative interpretations thereof, and revising and updating existing IASs. The PSC is not as well resourced as the IASB and has a substantial work program of its own which includes public sector specific issues and GFS/ESA harmonization as well as IAS/IFRS harmonization projects. As a consequence, the link between IPSASs and IASs/IFRSs is being steadily eroded.

The PSC has agreed that IPSASs should be harmonized with IASs/IFRSs unless there is a public sector reason to depart, that changes to the text of the IASs/IFRS should be minimized and that reasons for any departure should be explained in a "Basis for Conclusions". The PSC is now faced with the major task of catching up with the IASB and with developing an orderly and practical means of introducing revised IPSASs. The PSC has also acknowledged that it needs to allocate its resources across all elements of its work program.

At its March 2004 meeting, the PSC requested staff to prepare a strategy for the PSC's IAS/IFRS harmonization Program which:

- acknowledges the PSC's desire and intention to maintain the nexus between IPSASs and IASs/IFRSs over the longer term;
- establishes a stable platform of IPSASs for the medium term so that preparers are not facing constantly changing IPSASs as they attempt to adopt IPSASs for the first time; and
- provides for French and Spanish versions of "second generation" IPSASs are to be available prior to their application date.

The attached paper sets out Staff's views on the strategy that should be adopted for development of the accrual-basis IPSASs that are harmonized with IASs/IFRSs.

At the request of Philippe Adhémar (the PSC Chair), Mike Hathorn (the PSC Vice-Chair), agreed to coordinate the PSC's IASs/IFRSs Harmonization Project. Mike met with staff to discuss preliminary versions of this strategy. Philippe also provided input to the presentation of the strategy. However, it remains a staff view and not necessarily the view of Philippe or Mike.

Staff views on the key issues addressed in the strategy, and the rationale for the proposed response are outlined below.

ISSUES AND STAFF VIEWS

1. A stable platform of 20 IPSASs rather than 21 IPSASs – that is not including the IPSAS on Impairment of Assets in the stable platform.

Staff considered whether the proposed IPSAS on Impairment of Assets should be included in the set of stable platform IPSASs. The PSC is still working through a number of substantial issues which, depending on their resolution, may require amendment to other IPSASs, in particular IPSAS 17 *Property, Plant and Equipment*. This may delay the timing for declaration of the stable platform of IPSASs. Given the PSC policy of allowing 12 months from issue of an IPSAS to its application, the full stable platform would not be effective until at least 2006.

At the March 2004 meeting, the PSC noted that it was desirable to announce the composition of the stable platforms as soon as possible. On balance, staff are of the view that announcing a stable platform of the existing 20 IPSASs was a better reflection of the PSC's direction at the March 2004 meeting than delaying the stable platform until the Impairment IPSAS is issued and translated. This approach does not preclude the PSC from issuing the IPSAS on Impairment of Assets as soon as ready (but with a delayed application date). This will provide guidance to constituents and may allow for early adoption.

In addition, IPSAS 17 is being updated as part of the PSC's Improvement Project and this approach allows the Impairment IPSAS and the improved IPSAS 17 to de developed as a package.

2. The date of application of all the second generation of IPSASs.

This date is proposed to be 1 January 2009. To achieve this, given the PSC policy of allowing 12 months from issue date to application date, all the IPSASs, including the French and Spanish translations thereof, would need to be on issue at 1 January 2008 at the latest.

Staff considered earlier application dates for IPSASs as follows:

- On issue as at 1 January 2006 for application on 1 January 2007. This date only allows the remainder of 2004 and 2005 for completion of the due process and translation of all IPSASs included in the second generation package. This means that, at best only those IPSASs included in the Improvements project and the related IASs could be updated/issued. However, it is unlikely that they could be translated by 1 January 2006, so would fail this aspect of the PSC's criteria; and

- On issue by 1 January 2007 for application by 1 January 2008. This date provides better results re developing a comprehensive set of IPSASs. It would allow for translation of the revised and updated Improvement's Project IPSASs, but still would not allow for completion and translation of a substantial "core" of second generation IPSASs, including key public sector issues like non-exchange revenue and social policies.

Staff are of the view that an issue date of 1 January 2008, for application by 1 January 2009, is the earliest date at which it will be possible to have in place a substantial core of second generation IPSASs, including those dealing with at least some key public sector issues, translated into French and Spanish.

3. Whether to adopt an endorsement process, rewrite the IASs/IFRSs as was done during phase 1 of the program, rely on the hierarchy or a combination of all these approaches.

Staff views on this issue are driven by considerations of time, resources and due process. Staff considered three broad approaches: continuation of the existing approach, reliance on the hierarchy or adopt IASs/IFRSs without change where there is no public sector specific reason to depart from the requirements of the IAS/IFRS.

While continuing with the process of rewriting IASs as was adopted during the first phase of the standards program may be the preferred approach, staff are concerned that this is no longer possible given the substantial increase in the IASs/IFRSs on issue and on going changes therein, and given the PSC's extended work program.

Reliance on the hierarchy of authoritative guidance (in existing IPSAS 1 paragraph 42) is likely to be the least resource heavy approach. However, staff are concerned that different interpretations of the authority of IASs/IFRSs are possible under the hierarchy as currently structured. Staff considered various approaches to clarify the authority of the hierarchy and the authority of IASs/IFRSs within that hierarchy. However, staff were uncomfortable with the implications for due process of relying on a more authoritative hierarchy, particularly where a public sector conceptual framework was not yet in place.

Given the above, staff propose that the PSC should issue as IPSASs, the IASs/IFRSs that are applicable to public sector entities without change and only rewrite those IASs/IFRSs where there is a public sector reason to depart from the IAS/IFRS. The endorsement approach as proposed would result in an IPSAS being issued on all IASs/IFRSs. Introductory material in an "endorsement statement" would put the IAS/IFRS in context. An example of an endorsement for IAS 41 *Agriculture* is included at Appendix 4 together with a summary of IAS 41. It is proposed that this approach be tested at the November 2004 meeting with *Agriculture*.

Arguable the endorsement approach will be less resource heavy (both staff and PSC meeting time itself) than rewriting the IAS/IFRS, albeit that the intention is to minimize changes. This is because the IFRSs now comprise three components – the Standard, the Basis for Conclusions and Implementation Guidance, and the IFRS is to be read in the context of the

IASB's basis for conclusion and are supported by implementation guidance. Changing the text of the standard will have consequences for these two additional components. Staff are also concerned that it is difficult to limit changes once amendment to the text begins and unintended consequences can result from even the most minimal of rewrites.

Adoption of this approach will enable the PSC to use the IASB translated version of the IAS/IFRS. It is, of course, dependant on the IASB agreeing to use of IASs/IFRSs in this way (staff anticipate that this will be possible).

The downside of this approach is that the contents of the IPSASs will not look like the IPSASs developed during the first phase of the program, and these were well received.

Accepting the principle of a positive endorsement, unless there is a public sector reason to depart, does not preclude a rewrite where necessary. In addition, the hierarchy will remain in place to provide guidance in much the same way it operates at present. As such, while the staff approach is described as an "endorsement approach" it is in effect a combination of the three approaches.

4. Should all IASs/IFRSs be converted into IPSASs, or only those IASs that are more relevant to the public sector.

The PSC's objective is to harmonize with the IASs/IFRSs unless there is a public sector reason to depart. Some IASs/IFRSs are critical to progress on the Improvements project and are particularly relevant to the public sector. Arguably, others like IAS 12 *Income Taxes* and IAS 33 *Earning Per Share* and IFRS 2 *Share-based Payments* will have little relevance to the public sector in many jurisdictions. They are likely to only come into play in whole-of-government financial statements which consolidate government controlled companies and fully or partially privatized entities. It can be argued that resources should not be devoted to their conversion to IPSASs.

The IASs/IFRSs that are likely to be lower priority projects are identified in the strategy paper. The staff view is that while these low priority projects may not be endorsed and issued as IPSASs because of resource constraints, their potential adoption as IPSASs should be acknowledged. As such they have not yet been excluded from the harmonization program.

5. Should a stable platform also be developed for the Cash Basis IPSAS

The PSC's discussion of a stable platform has focused on the accrual IPSASs based on IASs/IFRSs. Staff considered whether there was a similar case to establish a stable platform for the cash basis IPSAS, and concluded there was not because:

- The accrual disclosures are only encouraged for the cash basis IPSAS. It is likely that these encouraged disclosures would only be updated after the PSC were comfortable that they did signpost the path to the accrual basis, for entities intending to migrate to the accrual basis. This provides similar benefits to the stable platform;
- There clearly is a desire from many constituents for the Development Assistance IPSAS for the cash basis to be issued and applicable as soon as possible; and

- The PSC has agreed to review implementation of the cash basis in 2005 whether or not there is a need to establish a steady platform for the cash basis IPSAS could usefully be considered at that time.

PSC's Strategy on Harmonization with IASs/IFRs
Summary - Key Elements of the Proposed Strategy

Background

1. The IASB is moving ahead with an extensive work program that includes issuing new IFRSs and revising and updating existing IASs. The PSC is not as well resourced as the IASB and has a substantial work program of its own. That work program includes public sector specific issues and the convergence of accounting and statistical bases of financial report as well as IAS/IFRS harmonization projects. As a consequence, the link between IPSASs and IASs/IFRSs is being steadily eroded. The PSC directed staff to prepare a strategy for the PSC's IAS/IFRS harmonization Program which:
   - Acknowledges that the nexus between IPSASs and IASs/IFRSs will be maintained over the longer term.
   - Establishes a stable platform of IPSASs for the medium term, so that preparers attempting to adopt IPSASs for the first time do not face frequent changes in the short term.
   - Confirms that French and Spanish versions of "second generation" IPSASs will be available prior to their application date.

Approach

2. Staff considered three broad approaches to the achievement of the PSC's IAS/IFRS harmonization objectives. Those approaches were:
   - Continue with the existing approach of rewriting each IAS/IFRS to ensure that the resulting IPSAS includes appropriate public sector terminology and explanation and context.
   - Rely on the hierarchy of authoritative guidance (in existing IPSAS 1 paragraph 42) to provide users with guidance on the authority of IASs/IFRSs. As part of this process, staff also considered clarifying that the hierarchy was authoritative (rather than commentary/persuasive as is its current status), and directing readers to consider IASs/IFRSs as the next level of guidance after considering IPSASs and other authoritative PSC guidance (that is, elevating the authority of IASs/IFRSs above national requirements and existing practices).
   - Endorsing and issuing as IPSASs, the IAS/IFRS that are applicable to public sector entities without change, and only rewriting those IASs/IFRS where there is a public sector reason to depart. The "endorsement" process would include a statement that clearly identifies the PSC's view on adoption of the IAS/IFRS, the relationship of the IAS/IFRS to other IPSASs, any limitations of scope on application of the IAS/IFRS and the manner in which terms are to be interpreted in the public sector.

3. Staff also considered whether the proposed stable platform of IPSASs should include the IPSAS on Impairment of Assets and the period that should be established for maintenance of the stable platform.

Proposed Strategy - The Stable Platform and Development Process

4. The objective of the proposed strategy is to:

- Establish as a stable platform the 20 accrual-based IPSASs on issue at June 30, 2004 and provide for an orderly introduction of a comprehensive set of enhanced and strengthened IPSASs – the "second generation" of IASB harmonized IPSASs. It is proposed that English, French and Spanish language versions of the "second generation" IASB harmonized IPSASs be issued by January 1, 2008 for application to annual periods commencing on or after January 1, 2009; and
- Establish a process that enables the PSC to clarify the authority of all IASs/IFRSs on issue as at December 31, 2004 for which an IPSAS does not currently exist (and subsequently issued IASs/IFRSs) in an efficient and effective manner. This mechanism to be transparent, to comply with PSC "due process" and to minimize deflection of PSC resources from the public sector specific and GFS/ESA harmonization projects on the PSC's work program.

Proposed Strategy – The "Second Generation" IPSASs

5. Under the proposed strategy, the PSC will have in place as at January 1, 2008, the following IPSASs for application for periods beginning January 1, 2009:

- The existing 20 IPSASs updated for changes emanating from the IASB's improvement project and from other aspects of the PSC's and IASB's work program;
- An IPSAS dealing with impairment of asset, based on IPSAS Exposure Draft ED 23. This will ensure that the IPSAS on Impairment and the revised IPSAS 17 are developed and become effective as part of the same package of IPSASs;
- IPSASs adopting the requirements of all IASs/IFRSs on issue at December 31, 2004 for which an IPSAS does not currently exist, (including Interpretations and subsequently updated versions thereof) to the extent that there is no public section specific reason for a departure from the IASs/IFRSs. Currently, there are 15 IASs/IFRSs on issue for which there is no equivalent IPSAS;
- A revised PSC Preface; and
- French and Spanish versions of all IPSASs and the PSC Preface.

Proposed Process – Key features

6. Rather than rewriting each IAS/IFRS as occurred during the first phase of the PSC's standard program, it is proposed that the PSC should issue as an exposure draft:

- The IAS/IFRS it proposes as applicable to public sector entities without change; and
- An "Endorsement and Interpretation" statement that clearly identifies the PSC's view on adoption of the IAS/IFRS, the relationship of the IAS/IFRS to other IPSASs, any limitations of scope on application of the IAS/IFRS and the manner in which terms are to be interpreted in the public sector. An example

of such a statement in respect of IAS 41 *Agriculture* is included at Appendix 4.

After completion of the full due process, the endorsed IAS/IFRS would be issued as an IPSAS and be numbered chronologically in the IPSAS series. Where the PSC was of the view that there was a public sector reason to depart from the IAS/IFRS, the IAS/IFRS would be amended to include requirements appropriate for the public sector.

7. Staff are of the view that this approach has benefits over the approach adopted during the first phase of the standards program, for example:
   - It is less resource intensive, and allows more PSC resources to be allocated to deal with public sector specific issues;
   - It fits better with the translation objectives of the PSC. The PSC will be able to leverage off the translations already undertaken by the IASB – only the "covering" endorsement would need to be translated;
   - It clarifies for users the authority of SICs and IFRICs as part of the IAS/IFRS and therefore IPSAS;
   - It ensures that there are no unintended departures from the IAS/IFRS which may occur if words are changed within the text of the IAS/IFRS itself;
   - It provides a sound basis for the PSC to continue to endorse and adopt IFRSs on a timely basis beyond 2009;
   - It is transparent. It requires the PSC to make explicit its intention to adopt an IAS/IFRS, any modification or interpretation proposed and provides constituents with an opportunity to comment; and
   - It overcomes a "log-jam" that threatens the ability of the PSC to progress its IASB-improvements project.

8. There are of course potential disadvantages of this "endorsement" approach, including that it does not amend terminology, expression and examples in the IASs/IFRSs to better reflect the public sector environment (though public sector examples can be added in the endorsement materials). The full review and rewrite approach adopted during the first phase of the standards program was accepted by constituents and was most effective. In addition, the endorsement approach is dependant on agreement of the IASB for use of their IFRSs in this manner.

9. An approach which involved strengthening the PSC hierarchy to make it clear that authoritative guidance issued by the IASB should be adopted in dealing with issues for which an IPSAS does not exist is appealing as a resources efficient mechanism of clarifying the authority of IPSASs. However, it was rejected because staff were uncomfortable that it was not sufficiently transparent to reflect PSC processes and may not conform with PSC "due process" criteria.

10. Under the proposed strategy, all IASs/IFRSs on issue as at December 31, 2004 would be adopted as IPSASs unless there is a public sector specific reason for a departure from the requirements of an IAS/IFRS. The adoption process would be

subject to the full "due process" which would require the PSC to issue exposure drafts of each IAS/IFRS which is to be adopted as an IPSAS. This is consistent with the approach the PSC currently adopts.

11. Relationships with other IPSASs would also be clarified, including those IPSASs emanating from the public sector specific and government statistics harmonization components of the PSC's work program. The application date for the "second generation" IPSASs is proposed as periods beginning on or after January 1, 2009. This date has been identified to link with anticipated completion of key projects from the other components of the PSC's work program. This enables the PSC to bring on line for annual periods beginning on or after January 1, 2009 a comprehensive internally consistent set of IPSASs which reflects all key components of its work program. If the PSC was successful in completing all projects as proposed, there would be about 40 IPSASs on issue as at January 1, 2008.

Relationship with IASB and its work program

12. The PSC would review and, as appropriate, prepare a submission on exposure drafts of all IASs/IFRSs developed subsequent to December 2004. In addition, the PSC would attempt to establish a closer relationship with the IASB to enable it to monitor, on an ongoing basis, changes to the proposed IAS/IFRS that might be made by the IASB in the post exposure draft finalization process. This is intended to ensure that the PSC is able to assess, as each IAS/IFRS is being developed, whether the requirements of the IAS/IFRS are applicable to the public sector or will require some modifications. This will enable the PSC to move quickly to issue an exposure draft proposing adoption of the IAS/IFRS as an IPSAS, and identify any modifications or interpretations to the IASs/IFRSs necessary for application to the public sector.

13. To assist constituents to prepare for January 1, 2009, the PSC may adopt the IASB approach and issue some standards as provisional standards, signifying that, while substantially complete, the IPSAS may need final amendment to co-ordinate with the full "2009 package". As appropriate, the PSC may also indicate whether early adoption of IPSASs issued as final standards is possible and encouraged. This may occur in respect of IPSASs dealing with new issues outside the IAS/IFRS harmonization program (for example non-exchange revenue).

14. If agreed by the PSC, the strategy would be issued as a public document, noting the PSC's intention to act on it. While not a formal exposure draft, the PSC should welcome any comment and note that it may refine its approach based on experience and persuasive comment from constituents. However, the PSC should also confirm that once agreed at its November 2004 meeting, constituents could have confidence that the core element of the strategy would remain in place – that is, that the existing 20 IPSASs would not change before January 1, 2009.

15. The proposed Strategy increases the PSC's work load for the period 2005-2008. To service that work load, additional staff resources and the capacity for additional PSC meeting time will be necessary. If such is not available, the proposed outputs by January 1, 2008 will need to be rethought. It may be that a phased approach to clarification of the authority of IASs/IFRSs will need to be adopted. A schedule identifying the proposed priority of existing IASs/IFRSs has been prepared and is included as an Appendix.

16. The Strategy will need to be reviewed in light of the Report of the PSC Review Panel. In addition, support or otherwise for this strategy may influence the PSC's reaction to that Report.

1. Introduction

The IAS/IFRS harmonization Program

1.1 The PSC's objective is to establish itself as the international standard-setter for the public sector by developing a comprehensive and coherent set of International Public Sector Accounting Standards (IPSASs) for financial reporting by public sector entities. In pursuit of that objective, the PSC is progressing a work program with the following three major components:

- The development of IPSASs based on IASs/IFRSs unless there is a public sector reason for a departure. The PSC has completed the first phase of its standards program to develop IPSASs based on the 22 IASs on issue at August 1997. Currently, there are 2 outstanding IASs from this original work program – IAS 19 *Employee Benefits* and IAS 22 *Business Combinations*. The PSC deferred consideration of these two IASs until the IASB had issued revised standards;
- The development of IPSASs dealing with public sector specific issues, including revenue from non-exchange transactions, social policies of government, budget reporting and a public sector framework; and
- Involvement in international activities to support the convergence of accounting and statistical bases of financial reporting to the extent appropriate, including the development of IPSASs to deal with certain convergence/harmonization issues.

1.2 The IAS/IFRS harmonization program is an integral component in the PSC's broader work program and is impacted by, and itself has implications for, that broader work program.

1.3 The accrual IPSASs issued during the first phase of the standards program maintain the requirements, structure and text of the IASs/IFRSs, unless there was a public sector specific reason for a departure. In addition to any amendments to requirements that are not appropriate for the public sector, the IASs/IFRSs were amended to include public sector terminology, context and perspectives. The PSC's approach to harmonization with IASs has been significant in gaining support for its standards program – in respect of both technical content and quality of its output, and the efficient use of limited resources.

1.4 The PSC recently confirmed that IPSASs should be fully harmonized with IASs/IFRSs unless there was a public sector specific reason for a departure. The PSC also agreed that changes to the text of the IASs/IFRS should be minimized and the reasons for any departure from an equivalent IAS/IFRS should be explained in a "Basis for Conclusions" included in each IPSAS.

1.5 The PSC's External Review Panel is currently finalizing its report. This proposed strategy will need to be assessed and tested in the context of the Report of the Panel.

Background to the proposed strategy- key factors

1.6 The IASB is moving rapidly ahead with an extensive work program that includes issuing new IFRSs and authoritative interpretations thereof, and revising and updating existing IASs. As a consequence, the link between IPSASs and IASs/IFRSs is being steadily eroded. Appendix 2 identifies the 16 IASs/IFRSs currently on issue for which there is no IPSAS. In addition, the IASB has recently revised, or is currently revising, 30 of its standards as part of:

- its recently completed Improvements Project *Improvements to International Accounting Standards* issued in December 2003. This project impacts 11 existing IPSASs; and
- short or long term projects dealing with individual IASs/IFRSs. EDs for a number of these IASs are anticipated to be issued by the end of 2004.

1.7 The absence of IPSASs on all the existing IASs/IFRSs, and the widening differences between extant IPSASs and the equivalent IAS/IFRS are already causing difficulties for the PSC. For example, the interrelationships between IPSASs and IASs/IFRSs for which there is no equivalent IPSAS is proving to be an obstacle to the development of an ED on the IPSAS Improvements Project. This was evident at the last PSC meeting in dealing with scope issues related to the exclusion of IAS 41 *Agriculture* in updating IPSAS 12 *Inventory* and IPSAS 13 *Leases* as part of the Improvements Project and in ED 23 *Impairment of Assets*. IAS 41 *Agriculture* is not an isolated instance – there are many other similar interrelationships that will present similar obstacles in the IPSAS general improvements project.

1.8 On the broader front, the absence of IPSASs dealing with all IASs/IFRSs may cause difficulty to constituents seeking guidance on appropriate accounting treatment for particular transactions and events for which an IAS/IFRS but not an IPSAS has been issued. The role the hierarchy of authoritative guidance in existing IPSAS 1 (paragraph 42) plays in clarifying the authority of accounting treatments specified IASs/IFRSs not dealt with by IPSASs is considered later in this strategy paper.

1.9 At its March 2004 meeting, the PSC noted that if IPSASs are updated on an ongoing basis to reflect improvements in the existing IASs/IFRSs and the issuance of new IFRSs, governments and other public sector entities may be faced with constantly changing IPSASs. The PSC indicated that it is not comfortable with this situation, particularly at this time when the PSC is encouraging governments to adopt IPSASs for the first time. Consequently, the PSC directed staff to consider a new approach to IAS/IFRS harmonization and develop a strategy which:

- Acknowledges that the nexus between IPSASs and IASs/IFRSs will be maintained over the longer term, with IPSASs reflecting the requirements of IAS/IFRS unless there was a public sector reason to depart.
- Responds to practical difficulties faced by preparers attempting to adopt IPSASs for the first time and provide for an orderly adoption of IPSASs. In this context, the PSC directed that a key component of the IAS/IFRS

harmonization strategy was to be the establishment of a stable platform of IPSASs.

- Confirms that French and Spanish versions of all its new and improved IPSASs are to be available prior to their application date.

1.10 This Paper sets out Staff's views on the strategy that should be adopted for development of the accrual-basis IPSASs that are harmonized with IASs/IFRSs. It reflects the view that the objective of the PSC's IAS/IFRS harmonization program is to clarify the authority of all IASs/IFRSs for public sector entities.

1.11 The Paper does not specifically deal with the other two major components of the PSC's current work program (public sector specific projects and convergence of accounting and statistical bases of financial reporting). However, it notes that the outcome of those projects have a potential impact on IPSASs that are harmonized with IASs/IFRSs.

2. Proposed IAS/IFRS Harmonization Strategy – Staff Views

Approach to Clarifying Authority of IASs/IFRSs

2.1 Staff considered the following three broad approaches to the achievement of the PSC's IAS/IFRS harmonization objective:

- The current approach of rewriting IASs/IFRSs to include public sector terminology, context and perspectives before exposing and then issuing an IPSAS based on the IAS.
- Rely on the hierarchy of authoritative guidance (in existing IPSAS 1 paragraph 42) to provide users with guidance on the authority of IASs/IFRSs.
- Endorsing and issuing as IPSASs, the IAS/IFRS that are applicable to public sector entities without change and only rewriting those IASs/IFRS where there is a public sector reason to depart.

Staff views on each approach and the recommended approach are outlined below.

Current Approach

2.2 During the first phase of the standards program, the PSC worked through each IAS in detail and amended terminology, expression and examples to better reflect the public sector environment. This approach was well received by constituents and was most effective in producing an initial set of high quality accrual basis IPSASs.

2.3 As well as steadily increasing in number as the IASB responds to issues in financial reporting by profit-oriented entities, the IASs/IFRSs are developing and evolving in complexity and style. For example, the recently issued IFRSs comprise three components: the IFRS itself (including authoritative appendices), a Basis For Conclusion and Implementation Guidance. The IFRSs may also be supported by authoritative Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

2.4 The PSC is not as well resourced as the IASB and has a substantial work program of its own which includes public sector specific issues and convergence of accounting and statistical bases of financial reporting, as well as IAS/IFRS harmonization projects. In this environment, it is questionable whether the PSC's policy of rewriting all IASs/IFRSs before issuing them as IPSASs continues to be viable: realistically, without a substantial increase in PSC meeting time and resources, it will not be possible for the PSC to keep pace with the IASB and at the same time pursue its program of developing IPSASs to deal with public sector issues under its current approach to IAS/IFRS harmonization.

2.5 Adopting a process of strictly restricting amendments to IASs/IFRSs to deal with only terminology, scope and similar "essential" matters may be a practical resource efficient modification to the approach adopted during the first phase of the standards program. However, staff are concerned that changing the text of the IAS/IFRS may have consequences for the Basis for Conclusion, Implementation Guidance and any Interpretations that are issued

– so the process may be more complex than anticipated. Staff are also concerned that it may be difficult to limit changes once amendment to the text begin, and unintended consequences can result from even the most minimal of rewrites.

PSC Hierarchy

2.6 Current IPSAS 1 paragraph 37 requires that, in the absence of an IPSAS dealing with an issue, management should use its judgment in developing and applying an accounting policy that results in information that satisfies the qualitative characteristics of financial information. Commentary in IPSAS 1 paragraph 42 identifies a hierarchy of authoritative guidance that management should refer to in exercising its judgment. In broad terms, that hierarchy specifies that, in making its judgment, management should:

- first refer to requirements and guidance in IPSASs dealing with similar and related issues, and
- then the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other PSC pronouncements.

The hierarchy then goes on to specify that management may also consider the latest pronouncements of other standard-setting bodies, including those of the IASB and accepted public or private sector practices, to the extent, but only to the extent, that these are consistent with the dot points above.

2.7 Reliance on a hierarchy is clearly appealing as a resources efficient mechanism of clarifying the authority of IASs/IFRSs. It enables the PSC to direct constituents to appropriate guidance on accounting for transactions and events not currently dealt with in IPSASs.

2.8 Staff are concerned that different interpretations of the authority that IASs/IFRSs have in the PSC hierarchy are possible under the existing hierarchy. This is because the hierarchy is not currently a "black letter" standard, and because IASs/IFRSs have the same status as accepted practices and pronouncements of other standard-setting bodies. In this respect, it is arguable whether the hierarchy as currently structured will deliver the IAS/IFRS harmonization objective of requiring the requirements of the IASs/IFRSs to be applied unless there is a public sector reason to depart.

2.9 Some of the concerns about the effectiveness of the current hierarchy will be overcome as part of the PSC's Improvement project – for example, the hierarchy will become a "black letter" standard in IPSAS 3.

2.10 Other concerns regarding the authority of IASs/IFRSs for public sector entities could be overcome by further strengthening the hierarchy to require users to refer to the IASs/IFRSs where there is no guidance in IPSASs, (and where the IAS/IFRS does not conflict with other authoritative guidance of the PSC). The authority of IASs/IFRSs would then be elevated above national requirements and existing practices. However, Staff were concerned that the elevation of the authority of IASs/IFRSs in this way may result in some unintended consequences. For example, it would provide authority to all IASs/IFRSs for which an equivalent IPSAS had not been issued. Staff were uncomfortable with the implications for the PSC's transparent "due process" of relying on a more authoritative hierarchy, particularly where a public sector conceptual framework was not yet in place.

Endorsement and Adoption of those IASs/IFRSs as appropriate

2.11 This approach involves endorsing and issuing as IPSASs, the IASs/IFRSs that are applicable to public sector entities without change. The rewriting of an IAS/IFRS would only occur where there is a public sector reason to depart from the requirements of the IASs/IFRS. This type of approach has been raised previously by members as a "wrap-around" approach.

2.12 As proposed here, the "endorsement" process would be subject to due process and would involve the review of the IAS/IFRS by the PSC and the issue of an Exposure Draft and final IPSAS. It is proposed that the Exposure Draft and final IPSAS comprise the IAS/IFRS without change from that issued by the IASB, and an "endorsement and interpretation statement" prepared by the PSC which would clearly identify such matters as:

- the PSC's view on adoption of the IAS/IFRS;
- the relationship of the IAS/IFRS to other IPSASs;
- any limitations of scope on application of the IAS/IFRS;
- the manner in which terms are to be interpreted in the public sector; and
- any other matters the PSC may wish to identify as the basis for its conclusion on adoption of the IAS/IFRS as an IPSAS.

2.13 After completion of the full due process, the endorsed IAS/IFRS would be issued as an IPSAS and be numbered chronologically in the IPSAS series.

2.14 This is the preferred staff approach. Staff are of the view that advantages of the endorsements approach include:

- It is a transparent process which complies with the PSC due process. In this context, it will be clear to constituents that the proposal is to adopt the IAS/IFRS as applicable for public sector entities and to interpret certain of the IAS/IFRS terminology in the public sector context;
- It is more resource efficient than the full review and rewrite approach and better able to deal with the evolving structure of IFRSs which include a Basis for Conclusion, Implementation Guidance and Interpretations. In this context, is less at risk of unintended consequences than approaches that involve very limited rewriting of the IAS/IFRS;
- It provides a better basis on which to track and respond to further upgrades to the IASs/IFRSs, including those processed through IFRIC Interpretations;
- It ensures that a complete set of IPSASs is prepared;
- It facilitates translations into PSC priority languages, because the PSC can utilize the translated IASs/IFRSs already available from the IASB. It is only the endorsement material which needs to be translated; and

- It provides a sound basis for the PSC to continue to endorse and adopt IFRSs on a timely basis in the future.

2.15 As a matter of PSC process, a summary of each IAS/IFRS together with staff recommendations on whether there is a public sector reason for departure will be prepared to support the PSC's review of each IAS/IFRS. An example of an endorsement statement for IAS 41 *Agriculture* is included at Appendix 4 together with a summary of IAS 41. It is proposed that if the PSC consider this approach to endorsement of IASs/IFRSs is worth pursuing it be fully tested at the November 2004 meeting with the proposed endorsement of IAS 41 *Agriculture*. (At that time the PSC may also test whether adopting a process of amending IASs/IFRSs for only terminology, scope and similar "essential" changes (as noted in paragraph 2.5) would be effective.)

2.16 Where the PSC was of the view that there was a public sector reason to depart from the IAS/IFRS, the IAS/IFRS would be amended to include requirements appropriate for the public sector.

2.17 There are of course potential disadvantages of this endorsement approach including that:

- It does not reflect the approach that was adopted during the first phase of the standards program. The proposed departure from the previous approach is in response to resource shortages and an increasing number of public sector specific issues on the PSC work program, rather than any implication that that approach was flawed.

- It involves more PSC resources than does reliance on the hierarchy; and

- To clarify the authority of all IASs/IFRSs for the public sector would involve spending some time endorsing IASs/IFRSs that are likely to have little relevance to the public sector – for example, IAS 12 *Income Taxes*, IAS 33 *Earning Per Share* and IFRS 2 *Share-based Payments*. It is likely that these standards will really only be relevant in whole-of-government consolidated financial statements for the public sector. (Staff are of the view that these IASs should be treated as lower priority projects and should only be dealt with as resources allow.)

In addition, this approach is dependant on the agreement of the IASB for use of their IFRSs in this manner - copyright issues and any funding implications will need to be resolved. However, staff anticipate that these issues can be worked through.

2.18 Given the discussion of low priority IASs/IFRSs above, it is likely that at any point in time an IPSAS dealing with all IASs/IFRSs may not be on issue. In these cases, the hierarchy will play its usual role. In addition, where there is a public sector reason to depart from an IAS/IFRS, the "review and rewrite" approach would be used. As such, while this approach is described as an "endorsement approach", it is in effect a combination of the three approaches.

Stable Platform 2004-2009

All "second generation" IPSASs to be on issue by January 1, 2008 for application to periods commencing January 1, 2009. French and Spanish translations of IPSASs to be available by January 1, 2008.

2.19 It is proposed that the PSC specify that the existing 20 IPSASs form a stable platform of authoritative requirements that will not change for annual reporting periods beginning before January 1, 2009. A stable platform does not preclude the PSC from continuing to update IPSASs or to develop new IPSASs during this period and issuing new or revised IPSASs as they are approved. However, the requirements of the updated or new IPSASs would not be required to be adopted for periods commencing before January 1, 2009. (Of course, the PSC could continue to encourage or note that early adoption is possible where such is appropriate.)

2.20 To achieve this objective, all the IPSASs, including the French and Spanish translations thereof, would need to be on issue at January 1, 2008 at the latest. This would provide a minimum of 12 months from issue date to application date. This is consistent with current PSC policy.

Issues – exclusion of IPSAS 21 Impairment of Assets from the stable platform

2.21 The IPSAS based on ED23 *Impairment of Assets* is nearing completion, and its inclusion in the stable platform is appealing. However, it is proposed that IPSAS 21 *Impairment of Assets* not be included as part of the stable platform. This is because it:

- Includes references to other IASs/IFRSs that have not yet been endorsed by the PSC. As noted above, clarification of a policy on IASs/IFRSs not yet endorsed by the PSC has been an obstacle in moving forward on the IPSAS improvements project; and
- Will impact and possibly require amendments to some of the 20 core IPSASs. The PSC is still working through a number of substantial issues which, depending on their resolution, may require amendment to other IPSASs, in particular IPSAS 17 *Property, Plant and Equipment*. This may delay the establishment of the stable platform of IPSASs. IPSAS 17 is being updated as part of the PSC's Improvement Project and this approach allows the Impairment IPSAS and the improved IPSAS 17 to de developed together.
- Is an addition to a set of IPSASs whose requirements are well known amongst those governments and entities contemplating their adoption. To make adoption of the impairment IPSAS mandatory would constitute another change to the set of existing IPSASs. As with all IPSASs, once issued, the Impairment of Assets IPSAS can be early adopted if it addresses a gap in the requirements of any jurisdiction.

Issues – Application date of periods beginning on January 1, 2009 rather than an earlier date

2.22 The PSC's work program includes projects dealing with a range of public sector specific issues, including convergence/harmonization of accounting and statistical financial reporting models. The application date for the "second generation" of IAS/IFRS harmonized IPSASs is proposed as periods beginning on or after January 1, 2009. This date was chosen to link with the anticipated completion of key public sector specific projects. It will enable PSC to:

- deal with key relationships between the IPSASs which are based on IASs/IFRSs and those emanating from public sector specific projects such as non-exchange revenue, social policy obligations, budget reporting, disclosure of the general government sector and performance reporting; and

- bring on line for annual periods beginning on or after January 1, 2009 a comprehensive internally consistent set of IPSASs which reflects all key components of the work program. If all components of this strategy were achieved within the time frame proposed, approximately 40 IPSASs would be included in the "2009 package". (The IPSASs that might be included in this package are discussed in paragraphs 2.26 to 2.28 below).

2.23 Consistent with existing PSC policies, IPSASs are applicable 12 months after their issue – this means, IPSASs will need to be on issue by January 1, 2008 for application by January 1, 2009. It is anticipated that this is the earliest date at which the PSC can complete a fully integrated and cohesive set of standards that reflects all major components of its work program.

2.24 Specifying the date which should be chosen to end the stable platform is difficult. Earlier application dates for the second generation IPSASs were considered and rejected as follows:

- Issue date of 1 January 2006 for application on 1 January 2007. This date only allows the remainder of this year and 2005 for completion of due process and translation of all IPSASs included in the "second generation" package. This means that, at best only the IPSAS on Impairment of Assets and those IPSASs included in the Improvements project and their related IASs could be updated/issued. However, it is unlikely that they could be translated by 1 January 2006. In addition, there would need to be ongoing updating of IPSASs subsequent to 1 January 2006 as other projects are completed. There seems to be little purpose in specifying a stable platform to January 1, 2007 – effectively it only defers application of one IPSAS, on Impairment of Assets, and provides little time for translations.

- On issue by 1 January 2007 for application by I January 2008. This date makes the stable platform more meaningful and provides for a more comprehensive set of "second generation" IPSASs. It would also allow for translation of the IPSASs updated as part of the PSCs improvements project. However, it is questionable whether it would allow for completion and translation of IPSASs dealing with key public sector issues like non-exchange revenue, social policy obligations and general government disclosures; and for dealing with the product of existing IASB projects which may revise IASs/IFRS dealing with exchange revenue, consolidations, provisions and financial instruments disclosures.

Consequently, an issue date of 1 January 2008, for application by 1 January 2009, seemed like the earliest date it was possible to have in place a substantial core of second generation IPSASs, including those dealing with at least some key public sector issues, translated into French and Spanish. Later dates were rejected as deferring for too long the application dates of new and revised IPSASs.

2.25 A disconnect between the IPSAS Improvements Project and other PSC projects could be made such that the stable platform be specified to comprise the 11 IPSASs in the improvements package. Additional individual IPSASs may then be issued with application dates prior to 2009. Such an approach may be appealing because it enables authoritative guidance on for example, Impairment of Assets and other public sector specific IPSASs to become authoritative 12 months after issue. However, such an approach may well require a revision to an existing IPSAS – this would mean the end of the stable platform with preparers facing ongoing refinements in reporting requirements, and therefore in accounting systems, as the new IPSASs became effective. It is intended that the adoption of this "second generation" (or big bang) approach minimize the need for ongoing changes in IPSASs and provide some certainty for preparers as they plan for 2009. In a practical sense, given the nature of the PSC's due process, it is also unlikely that public sector specific projects will be completed for application before 2009. As such, the merits of this type of approach is questionable.

Issue – composition of the "second generation" IPSASs applicable in 2009

2.26 It is proposed that the "second generation" of IAS/IFRS harmonized IPSASs applicable for annual periods beginning 1 January 2009 include:

- The 20 IPSASs currently on issue, updated to incorporate all amendments to the equivalent IASs/IFRSs unless there is a public sector reason for a departure. These amendments will include all amendments made by the IASB to IASs/IFRSs by December 2004. Any subsequent changes made before 2008 would also be processed provided "due process" was followed and PSC resources (staff and meeting time) were available. Amendments will also be made to ensure consistency with IPSASs approved by the PSC which deal with public sector specific issues, including convergence/harmonization of accounting and statistical basis of financial reporting;

- An IPSAS dealing with impairment of assets, based on IPSAS Exposure Draft ED 23;

- IPSASs that deal with all other IASs/IFRSs issued at December 31, 2004 for which there is no IPSAS, and subsequent revisions thereof. (The subsequent revisions thereof being subject to similar resource and due process constraint as identified for the 20 existing IPSASs.);

- Clarification of the authority of all interpretations of IASs/IFRSs. Fuller discussion on this issue is included at paragraph 3.11; and

- An updated Preface to the IPSASs. Paragraphs 3.14 – 3.15 provide a fuller discussion of this.

2.27 The revised and new IPSASs will be on issue no later than January 1, 2008 at which time the French and Spanish translations of this "second generation" of IPSASs will also be reissued.

2.28 It is anticipated that IPSASs generated from the public sector specific and GFS/ESA convergence/harmonization components of the PSC's work program will also become effective for periods commencing January 1, 2009. As appropriate, the IAS/IFRS-harmonized IPSASs will be updated to deal with any cross references to these public sector specific IPSASs.

Conceptual Framework

2.29 It anticipated that the PSC will commence work on developing its Conceptual Framework in 2005 by considering the application of the IASB's framework to the public sector, and will have made significant progress by 2009. However, it is not anticipated that the Framework will be in place by January 1, 2008 when the revised existing IPSASs are to be on issue. This is because the IASB is currently undertaking a review and update of its own Conceptual Framework and explaining the implications of the IASB Framework for the public sector, dealing with any public sector unique concepts that might emerge from public sector specific projects such as non-exchange revenue, social policy obligations and budget reporting, and getting the "buy-in" from PSC constituents is likely to take some considerable resources and time.

3 Proposed IAS/IFRS Harmonization – the Program and Process

3.1 The timetable for completion of the IAS/IFRS harmonization program is ambitious. Successful completion of the program is dependant on availability of sufficient PSC meeting time and staff support to enable materials to be prepared, reviewed and issued. This section deals with work program issues, policies for dealing with a number of key issues, including clarifying the authority of Interpretations of IASs/IFRSs, and dealing with interrelationships between IPSASs and consequential changes/amendments to individual IPSASs. It also identifies a mechanism by which the program may be revised if resources are not available.

Work Program

3.2 The IAS/IFRS harmonization program as proposed in this strategy paper includes updating and reissuing the existing 20 existing IPSASs. As part of this program, the PSC is actively reviewing 11 IPSASs that are impacted by the IASB's *General Improvements Project*. Harmonizing with IASs/IFRSs will also involve updating other existing IPSASs for changes made to the equivalent IAS/IFRS by the IASB – for example, amendments have already been made to the IAS on which IPSAS 15 *Financial Instruments: Disclosure and Presentation* is based.

IASs/IFRSs for which there is no equivalent IPSAS

3.3 It is anticipated that, as far as possible, the PSC will consider whether an IAS/IFRS should be adopted as an IPSAS at meetings at which improvements to the related existing IPSASs are being considered. In the first instance, subject to resources, the sequence for consideration and exposure of the proposed adoption of existing IASs/IFRSs as IPSASs will be dictated by their relationship to IPSASs included in the Improvements Project such that a logical "package" of IPSASs is developed for exposure. Review of the IASs/IFRSs may also be linked to consideration of individual IPSASs where possible.

3.4 A work program which identifies the timing of development of these projects is included at item 12.3.

IASs/IFRSs issued post December 31, 2004

3.5 It is appealing to specify that the IPSASs will be updated to harmonize with all IASs/IFRS on issue as at December 31, 2004. Establishing such a cut-off point for upgrades sends a clear message to constituents and adds to certainty. However, staff are of the view that some flexibility is necessary to deal with IASs/IFRSs updated post December 31 if this will enhance the credibility of the IPSASs and provided it fits within the work program and can be dealt with consistent with PSC "due process". The following IASs/IFRSs are currently under review and are likely to be updated in the short term: IAS 18 *Revenue* (equivalent IPSAS 9), IAS 27 *Consolidation* (equivalent IPSAS 6), and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (equivalent IPSAS 19). It is anticipated that Exposure Drafts on revisions to these IASs/IFRSs will be issued by the end of 2004. It is proposed that these and longer term projects of the IASB be monitored and decisions regarding their inclusion in the second generation IPSASs be made when the IASB timing becomes clearer.

Process

3.6 It is proposed that the update of these IPSASs will follow the PSC's due process as follows:

- an omnibus ED dealing with amendments resulting from the *General Improvements Project* be issued, together with EDs of the related IASs/IFRSs to be adopted through the endorsement process; and
- EDs of other updated IPSASs as relevant.

(Appendix 3 outlines the IAS/IFRS harmonization work program of the PSC for the remainder of 2004 and early 2005. It is proposed that the omnibus exposure draft on the Improvements project be issued in early 2005.)

3.7 It is highly desirable that for application on January 1, 2009 there is an IPSAS for each equivalent IAS/IFRS on issue.

3.8 However, if sufficient resources are not available to deal with all IASs/IFRSs by that time period it will be necessary to adopt a phased approach with IASs/IFRSs being approved in a number of steps. Staff views on the relative priority of IASs/IFRSs for the 2009 application date are identified below.

3.9 Staff have analyzed the IASs/IFRSs and segregated them into two groups based on their relevance to the IPSAS Improvements Project and perceived significance to financial reporting in the public sector. A more detailed review of these IASs/IFRSs is included at Appendix 2.

- Group 1 – IASs/IFRSs in this group are higher priority and should be addressed first: IAS 19 *Employee Benefits*, IAS 36 *Impairment of Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 41 *Agriculture*, IFRS 3 *Business Combinations*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 38 *Intangible Assets*.
- Group 2 – IFRSs in this group are lower priority: IAS 12 *Income Taxes*, IAS 26 *Accounting and Reporting by Retirement Benefit Plans*, IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, IAS 33 *Earnings Per Share*, IFRS 2 *Share-based* IAS 34 *Interim Financial Reporting*, and IFRS 4 *Insurance Contracts*.

Provisional Standards

3.10 To assist users to prepare for January 1, 2009 implementation, the PSC may adopt the IASB approach and issue some standards as provisional standards, signifying that while substantially complete the IPSAS may need final amendment to co-ordinate fully with all IPSASs in the complete 2009 package. As appropriate, the PSC may also issue some standards as final IPSASs and indicate whether early adoption of IPSASs issued as final standards is possible and encouraged. This may occur, for example, in respect of IPSASs dealing with issues outside the IAS/IFRS harmonization program such as non-exchange revenue.

Clarifying the Authority of Interpretations of IASs/IFRSs

3.11 The IASB has defined IFRSs to include Interpretations issued by the former SIC and the current IFRIC. In many cases, the IASB incorporates the substance of Interpretations in the IAS/IFRS when it is updated. In these cases the Interpretation is withdrawn. Staff propose that the substance of Interpretations only be included in an IPSAS if the IASB has done so in the equivalent IAS/IFRSs. In other cases, a separate section (or appendix) will be included in each IPSAS to identify relevant extant Interpretations. Interpretations will be monitored and this section of the IPSAS updated annually when the handbook is prepared to reflect any additions or withdrawals. There are 11 Interpretations currently on issue. (The Interpretations that are still on issue are identified in Appendices 1 and 2 with their related IASs/IFRSs.)

Amendments to Other Pronouncements

3.12 IASs/IFRSs include an authoritative Appendix that identifies amendments to other IFRSs as a result of issuing a new IFRS. For example, the changes to IASs/IFRSs in the IASB's General Improvements Project which affect other existing IASs/IFRSs are identified in an authoritative Appendix. The Appendix is included to ensure that users are aware of the consequences of the changes made.

3.13 It is proposed that IPSASs also include an authoritative Appendix that reflects changes that need to be made to other IPSASs. These changes would then be processed annually as the PSC Handbook is updated and the Appendix removed. This Appendix would also be included in all EDs of proposed IPSASs indicating changes that may need to be made to other IPSASs in the future. For example, when the PSC exposes proposed changes to IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, the ED will include an Appendix identifying consequential changes to IPSAS 10 *Financial Reporting in Hyperinflationary Economies*.

Preface

3.14 The IASB revised its Preface in April 2002 to note that:

- the authority of all paragraphs in its IASs/IFRSs – both "black letter" and "grey letter" will have equal authority; and
- as part of the IASB's due process, a basis for conclusions should be included in exposure drafts and final Standards. The basis for conclusions will include explanation of the IASB's due process and how it deals with public comments on the exposure draft.

3.15 Staff believe that the PSC Preface should also be updated and be in place by January 1, 2008 to:

- clarify that the paragraphs in IPSASs have equal authority. Linking the revised Preface to the January 1, 2009 package will allow the PSC to review and confirm that the language in existing IPSASs is appropriate;

- note that a basis for conclusion will be included in EDs and IPSASs as part of PSC's due process and will explain any departure from the equivalent IAS/IFRS; and
- explain the PSC process for adoption of IASs/IFRSs as IPSASs.

Relationship with IASB

3.16 A perceived strength of this proposed strategy is that the PSC will be better able to reflect developments in IASs/IFRSs in the set of IPSASs issued for application in 2009 and better able to incorporate within the set of IPSASs changes in IASs/IFRS post 2009. To achieve these benefits it will be necessary for the PSC to strengthen its relationship with the IASB, monitor more closely developments in IASs/IFRSs and seek to have its views considered and represented in the development of IASs/IFRSs. This will include:

- Reviewing and submitting comments where applicable on all EDs issued by the IASB;
- Gaining access, on an ongoing basis, to changes to proposed IASs/IFRSs that might be made by the IASB in the post exposure draft finalization process. This is intended to ensure that the PSC is able to assess, as each IAS/IFRS is being developed, whether the requirements of the IAS/IFRS are applicable to the public sector or will require some modifications; and
- Involvement in relevant joint projects with the IASB and national standard-setters, for example, on conceptual framework and public/private partnership projects.

3.17 From a project management perspective, strengthening relations with the IASB will be useful in confirming copyright arrangements with the IASCF, and improving the efficiency of the translation process of IPSASs.

Relation with Other Components of PSC's work program

3.18 This IAS/IFRS harmonization strategy has been designed to co-ordinate with other aspects of the PSC's work program. As noted previously, it is an integral component in the PSC's broader work program and is impacted by, and itself has implications for, that broader work program.

3.19 Public sector specific projects including harmonization with statistical bases may be progressed with the support of steering committees or PAPs that include non-PSC members. To date, these committees have been very successful. To ensure that all components of the PSC's work program remain coordinated and all IPSASs issued as a result of that program remain consistent with the overarching concepts and objectives of the PSC, it is important that:

- the PSC continues to prepare strong project briefs that acknowledge the links between all components of the PSC's work program; and,
- an appropriate composition of experience and skills are represented in PSC Steering Committees and PAPs.

Harmonization Subcommittee

3.20 As noted previously, the program objectives for 2009 are ambitious. Whether a PSC harmonization subcommittee should be established to review proposed IPSASs out-of-session and ease the work-load was considered. However, it is not clear that this will speed up the process given that all members will wish to participate fully in approving any final IPSASs.

Public Announcement on Strategy

3.21 If agreed by the PSC, the strategy should be issued as a public document, noting the PSC's intention to adopt it (if that is the case) or variations thereof, at its next meeting in November 2004 meeting, and then act on it. The PSC should then welcome comments on the proposed strategy and note that it may refine its approach based on experience and persuasive comments from constituents. However, the PSC should also confirm that once agreed at its November 2004 meeting, constituents can have confidence that the core element of the strategy would remain in place - that is that the existing 20 IPSASs would not change before January 1, 2009 (if agreed). This approach should ensure that the process is transparent and that constituents have the opportunity to provide input. (The Chair has agreed that Consultative Group members be requested to comment on the proposed strategy and that it be discussed with those Consultative Group members attending the next PSC meeting in New York in July 2004.

Strategy Post 2009 – a third generation of IPSASs?

3.22 This strategy does not propose actions beyond 2009 when recommendations of the PSC Review Committee will have been implemented. Rather it is proposed that at the end of 2008, PSC expectations beyond 2009 be reviewed in the light of experience with this strategy.

Resource Implications

3.23 Current PSC Standards Program staff comprise a Technical Director, 2 Technical Managers and a secondee whose term with the PSC will end in September 2004), and consultants on specific projects. The PSC is also supported by the PSC Secretariat (one staff member) located in New York.

3.24 The resources (both PSC meeting time and PSC staff resources) allocated to the IAS/IFRS harmonization program will need reflect that it is one of three major components of the PSC's work program. It is not anticipated that staff resources will be increased during 2005. However, it is anticipated that as the Recommendations of the PSC External Review Panel take effect, additional staff resources will be made available to the PSC.

3.25 It is anticipated that the PSC will need to allocate the equivalent of something in order of 1 day of each meeting to focus on IAS/IFRS harmonization projects, and staff resources should be deployed to support that meeting program. It is also anticipated that on occasion additional meeting time may need to be scheduled. If necessary, this may be achieved by confirming PSC meetings as being of 3 days duration and conducting PSC seminars on a "fourth" PSC meeting day (whether the first or last day), and sharing the presentation load amongst members. This would have the effect of making the seminar optional for those not presenting.

3.26 As noted above, if PSC meeting time and staff support is not available, the proposed outputs by January 1, 2008 will need to be rethought. It may be that a phased approach to clarification of the authority of IASs/IFRSs will need to be adapted. If this is necessary endorsement of the lower priority IASs/IFRS identified in paragraph 3.9 should be deferred.

Appendix 1 –Existing IPSASs: relationship to IASB and PSC work program

This appendix summarizes the impact of the PSC's other projects and IASB's work program on the 20 accrual basis IPSASs and the Cash Basis IPSAS. The second part of this appendix shows the Interpretations that have not been included within the equivalent IASs/IFRSs.

Note: IPSASs marked with * are currently being reviewed as part of the General Improvements Project.

IPSASs	**PSC's Projects**	**IASB's work program**
*1 *Presentation of Financial Statements*	Being reviewed as part of the General Improvements Project. May be impacted by the budget reporting and GFS projects	Revised in Dec 03 as part of the General Improvements Project
2 *Cash Flow Statements*	May be impacted by budget reporting projects	Not part of the IASB's active program
*3 *Accounting Policies, Changes in Accounting Estimates and Errors*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
*4 *Accounting for Foreign Exchange Rates*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
5 *Borrowing Costs*	None	Not part of the IASB's active program
*6 *Consolidated and Separate Financial Statements*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project ED on consolidation with special purpose entities to be issued in end 2004
*7 *Investments in Associates*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
*8 *Interests in Joint Ventures*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
9 *Revenue from Exchange Transaction*	May be impacted by non-exchange revenue project	Research project to review the concept of revenue and this may amend the conceptual framework and any IFRS on revenue
10 *Financial Reporting in Hyperinflationary Economies*	None	Long-term research project with national standard setters on accounting for hyperinflationary economy

IPSASs	PSC's Projects	IASB's work program
11 *Construction Contracts*	Not part of the IASB's active program	Not part of the IASB's active program
*12 *Inventories*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
*13 *Leases*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
*14 *Events After Reporting Date*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
15 *Financial Instruments: Disclosure and Presentation*	None	IASB issued improved Standards on financial instruments in December 2003. Project amending IAS 30 (refer Appendix 2) may impact IASB's equivalent IAS of this IPSAS
*16 *Investment Property*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
*17 *Property, Plant and Equipment*	Being reviewed as part of the General Improvements Project.	Revised in Dec 03 as part of the General Improvements Project
18 *Segment Reporting*	May be impacted by GFS project	Not part of the IASB's active program
19 *Provisions, Contingent Liabilities and Contingent Assets*	May be impacted by the social policy obligations project	Part of IASB-FASB short-term convergence project ED Projected on issue 31 Dec 04
20 *Related Party Disclosures*	None	Revised in Dec 03 as part of the General Improvements Project
Cash Basis IPSAS	To be reviewed in 2005	None

Interpretations that remain in force, but have not been encompassed into IFRSs

The 7 out of 11 Interpretations that remain effective and are relevant for existing IPSASs are identified below (related IASs and IPSASs are identified in brackets):

1) SIC 7 *Introduction of the Euro* (IAS 21/IPSAS 4)

2) SIC 12 *Consolidation – Special Purpose Entities* (IAS 27/IPSAS 6)

3) SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers (IAS 31/IPSAS 8)

4) SIC 15 *Operating Leases – Incentives* (IAS 17/IPSAS 13)

5) SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease* (IAS 1, IAS 17 and IAS 18/IPSAS 1, IPSAS 13 and IPSAS 9)

6) SIC *29 Disclosure – Service Concession Arrangements* (IAS 1/IPSAS 1)

7) SIC 31 *Revenue – Barter Transactions Involving Advertising Services* (IAS 18/IPSAS 9)

APPENDIX 2 – IASs/IFRSs for which there is no IPSAS

This appendix provides a summary of the current status of IFRSs/IASs for which an equivalent IAS/IFRS has not yet been issued. The relative priority of adopting the IAS/IFRS as an IPSAS is identified in the second column. Adoption of those identified as Group I is of higher authority than Group 2.

The second part of this appendix identifies the Interpretations that have not been included within IASs/IFRSs.

IASs/IFRSs	**Priority of IAS/IFRS**	**Status of IASB work program**	**Related PSC public sector specific projects?**
IAS *12 Income Taxes*	Group 2 (Low priority)	Part of the IASB's short-term convergence project with FASB	None
IAS 19 *Employee Benefits*	Group 1 (High priority) PSC will comment on the ED	An ED proposing limited change to IAS 19 to be issued in mid-2004. A comprehensive project on post-employment benefits will be developed by a joint working group between FASB and IASB.	None
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	No action. PSC to monitor the IASB's long-term project	An ED replacing this IAS will be issued after 2nd Q 2004. Longer-term project on revenue	IPSAS – PSC project on revenue arising from non-exchange transactions.
IAS 26 *Accounting and Reporting by Retirement Benefit Plans*	Group 2 (Low priority)	Not part of the IASB's active agenda.	None
IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*	Group 2 (Low priority) To review EDs when issued and reassess status.	EDs will be issued in mid-2004. Project will impact IAS 32 and IAS 1 and amend the scope of the Standard to include entities with financial activities.	None
IAS 33 *Earnings Per Share*	Group 2 (Low priority)	Currently, not part of the IASB's active agenda.	None
IAS 34 *Interim Financial Reporting*	Group 2 (Low priority)	Currently, not part of the IASB's active agenda.	None

IASs/IFRSs	**Priority of IAS/IFRS**	**Status of IASB work program**	**Related PSC public sector specific projects?**
IAS 36 *Impairment of Assets*	Group 1 because ED 23 deals with impairment of assets for non-cash-generating assets (High priority)	Revised IAS issued in March 04	Yes – ED 23 *Impairment of Assets*
IAS 38 *Intangible Assets*	Group 1 (High priority)	Revised IAS issued in March 04	None
IAS 39 *Financial Instruments: Recognition and Measurement*	Group 1 (High priority)	Revised IAS issued in Dec 03. A Standard on macro-hedging which will impact the revised IAS 39 issued in March 04	None
IAS 41 *Agriculture*	Group 1 (High priority)	Currently, not part of the IASB's active agenda.	None
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	No action because relevant requirements will be included in individual IPSASs	New IFRS issued in July 03	Individual IPSASs
IFRS 2 *Share-based Payments*	Group 2 (Low priority)	IFRS issued in February 04	None
IFRS 3 *Business Combinations*	Group 1 (High priority)	A project on business combinations was reviewed in 2 phases. Phase I: Withdraw IAS 22. IFRS 3 issued in March 04. An ED to amend the scope of IFRS 3 will be issued in first quarter 2004 Phase II: Issue ED in 2004. IFRS anticipated to be issued in 2005.	None
IFRS 4 *Insurance Contracts*	Group 2 (Low priority) Specific knowledge required and limited impact in the public sector	IFRS issued in March 04.	None

IASs/IFRSs	**Priority of IAS/IFRS**	**Status of IASB work program**	**Related PSC public sector specific projects?**
IFRS 5 *Disposal of Non-current Assets and Presentation of Discontinued Operations*	Group 1 (High priority)	Issued in March 04. (The IASB withdrew IAS 35 *Discontinuing Operations* and replaced it with IFRS 5)	None
IFRS XX *Exploration for and evaluation of mineral resources*	To be decided when PSC analyze IFRS when issued	IASs/IFRSs projected to be on issue as at 31 December 04	None
Business Combinations Phase II – Application of purchase method	To be decided when PSC has reviewed the ED	EDs Projected on issue 31 Dec 04	To be decided when PSC analyze IFRS when issued

Interpretations that remain in force, but have not been encompassed into IFRSs

The 4 out of 11 Interpretations that remain effective and are relevant to the IASs/IFRSs for which an IPSAS does not yet exist are identified below(related IASs and IPSASs are identified in brackets):

1) SIC 10 *Government Assistance – No Specific Relation to Operating Activities* (IAS 20/No equivalent IPSAS)

2) SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* (IAS 12/ No equivalent IPSAS)

3) SIC 25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders* (IAS 12/ No equivalent IPSAS)

4) SIC 32 *Intangible Assets – Website Costs* (IAS 38/ No equivalent IPSAS)

APPENDIX 3: PSC Time-table of Harmonization with IFRSs

This appendix shows the schedule for the Improvements Project review and the related IASs/IFRSs.

<u>July 2004 meeting:</u>

Detailed Review	**Relevant IFRSs/IASs Endorsement**
ED 23 *Impairment of Assets*	IAS 36 *Impairment of Assets*
ED IPSAS 17 *Property, Plant and Equipment*[*]	IAS 41 *Agriculture*[#]
ED IPSAS 16 *Investment Property*	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

ED IPSAS 1 *Presentation of Financial Statements*[*]

ED IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*

ED *Preface to the International Public Sector Accounting Standards*

<u>November 2004 meeting:</u>

Detailed Review	**Relevant IFRSs/IASs Endorsement**
ED IPSAS 6 *Consolidated and Separate Financial Statements*	
ED IPSAS 7 *Interests in Associates*	IAS 39 *Financial Instruments: Recognition and Measurement*
ED IPSAS 8 *Interests in Joint Controlled Entities*	IFRS 3 *Business Combinations*
ED IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	

Analysis of IAS 19 *Employee Benefits*[*]

Analysis of submissions: ITC *Revenues from Non-Exchange Transactions* and ITC on *Accounting for Social Policies Governments*

<u>March 2005 meeting:</u>

Review the omnibus IPSASs Improvements ED and agree the basis for conclusions of the ED.

[#] IPSAS 12 *Inventories* and IPSAS 13 *Leases* also exclude IAS 41 from their scope. These IPSASs were reviewed in March 2004 meeting, but the scope issue on IAS 41 was not resolved. Staff will amend the scope of these IPSASs once the PSC has agreed its policy re endorsing, or otherwise, IASs/IFRSs. The PSC will review the full omnibus ED (which includes IPSAS 12 and 13) in March 2005 meeting.

[*] Cross references to IAS 19 occur in IPSAS 1 and IPSAS 17. Footnotes in those IPSASs will note the PSC will consider application of IAS 19 to the public sector.

APPENDIX 4 – Example of Positive Endorsement

This appendix illustrates the statement of endorsement for IPSAS XX (IAS 41) *Agriculture* and it will appear in an IPSAS. The cover of IPSAS 23X *Agriculture* will be the same as for other IPSASs in the accrual IPSAS series.

IFAC Public
Sector
Committee

Appendix 4

Exposure Draft XX

Month 200X

Comments are requested by Month XX, 200X

DRAFT Proposed International Public Sector Accounting Standard

Agriculture

ILLUSTRATI0N OF PROPOSED ENDORSEMENT STATEMENT

FOR REVIEW AT PSC MEETING JULY 2004

This DRAFT Exposure Draft was [XX INSERT APPROVAL] by the Public Sector Committee of the International Federation of Accountants.

ACKNOWLEDGMENT

This Exposure Draft of an International Public Sector Accounting Standard deals with financial reporting of agricultural activity in the public sector. International Accounting Standard IAS 41, "Agriculture" is reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the International Accounting Standards Board (IASB). IAS 41 was published by the International Accounting Standards Committee (IASC). The IASB and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB.

The approved text of the IASs is that published by the IASB in the English language, and copies may be obtained directly from IASCF Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

E-mail: publications@iasb.org.uk
Internet: http://www.iasb.org

Information about the International Federation of Accountants and copies of this Exposure Draft can be found at its internet site, http://www.ifac.org.

The approved text of this Standard is that published in the English language.

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America
Web site: http://www.ifac.org

Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the Public Sector Committee. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

Comments should be submitted in writing so as to be received by Month XX, 2004. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Fax: +1 (212) 286-9570
E-mail Address: publicsectorpubs@ifac.org

INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants' Public Sector Committee (the Committee) is developing recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the Committee will consider the comments received on the Exposure Draft and may modify each proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Purpose of the Exposure Draft

This Exposure Draft proposes that the requirements of International Accounting Standard IAS 41 *Agriculture* be applied by public sector entities to agricultural activity in the public sector.

Request for Comments

Comments are invited on the proposal that IAS 41 be applied in the public sector by Month XX, 20XX. The Committee would prefer that respondents express a clear overall opinion on whether IAS 41 should be applied in the public sector. If respondents do not believe that IAS 41 should be applied in the public sector, they are requested to provide the Committee with the public sector specific reasons for adopting different financial reporting requirements in respect of agricultural activity in the public sector. Such reasons should detail how agricultural activity in the public sector differs from agricultural activity in the private sector, and why those differences indicate alternative financial reporting requirements. The Committee does not intend to amend any provisions of IAS 41 for application in the public sector, however, in the Statement of Endorsement, it indicates how certain provisions of IAS 41 are to be interpreted in the public sector.

International Public Sector Accounting Standard IPSAS XX

Agriculture

CONTENTS

Paragraphs

International Public Sector Accounting Standard IPSAS XX

Agriculture

Statement of Endorsement

E1. The Public Sector Committee (PSC) has considered the issues related to accounting for agricultural activity in the general purpose financial statements of public sector entities and does not consider that there are public sector specific considerations that warrant different financial reporting requirements to those prescribed by International Accounting Standard IAS 41 *Agriculture*. The PSC therefore proposes to adopt IAS 41 unchanged, as International Public Sector Accounting Standard IPSAS XX *Agriculture*. Paragraphs E2 to E9 identify implementation requirements for public sector entities.

Effective Date

E2. International Public Sector Accounting Standard XX *Agriculture* becomes effective for annual financial statements covering periods beginning on or after Month XX, 20XX (proposed to be January 1, 2009 in the strategy for harmonization).

E3. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Agriculture In The Public Sector

E4. In many jurisdictions, Government Business Enterprises (GBEs) are likely to be the principle public sector entities engaging in agricultural activity. However, non-GBE public sector entities may engage in agricultural activities, either directly or through controlled entities. Adopting IAS 41 as an IPSAS ensures that an appropriate and relevant accounting standard is adopted by public sector entities for financial reporting of agricultural activity.

Introduction to IAS 41

E5. The IASB's introduction to IAS 41 is reproduced in this Standard. The Introduction to IAS 41 is not part of the authoritative IAS 41, but is included as an aid to understanding the IAS. Similarly, the Introduction to IAS 41 is not part of the authoritative IPSAS XX.

Scope

E6. The scope of IPSAS XX shall be interpreted as applying to all public sector entities other than GBEs. GBEs are required to comply with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

References to Other Standards

E7. References in IAS 41 to other IFRSs/IASs shall be read as referring to other IPSASs, where the PSC has issued an equivalent IPSAS. Where the PSC has not issued or endorsed an equivalent IPSAS, a reference to another IAS shall be read as reference to "guidance" rather than an authoritative statement of the PSC. The table below indicates the appropriate IPSASs to be referred to:

IAS Referred To In IAS 41	**Equivalent IPSAS**
IAS 2 *Inventories*	IPSAS 12 *Inventories*
IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*[1]	IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.*
IAS 16 *Property, Plant and Equipment*	IPSAS 17 *Property, Plant and Equipment*
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	No equivalent IPSAS.[*]
IAS 36 *Impairment of Assets*	IPSAS 21X *Impairment of Non-Cash-Generating Assets* and IPSAS 22X *Impairment of Cash-Generating Assets* †
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*

[1] The IASB has revised and renamed IAS 8. It is now called IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This change has not been reflected in IAS 41 to date.
[*] The PSC intends developing an IPSAS that deals with revenue from grants after reviewing responses to the ITC *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*

IAS Referred To In IAS 41	**Equivalent IPSAS**
IAS 38 *Intangible Assets*	IPSAS XX *Intangible Assets* (under development)†
IAS 40 *Investment Property*	IPSAS 16 *Investment Property*

Terminology

E8. In some cases IPSASs use different terminology to IASs/IFRSs. In applying IPSAS XX, entities shall use the following table to determine the appropriate public sector terminology, the definitions of IPSAS terms are found in individual IPSASs and reproduced in the IPSAS *Glossary of Defined Terms* published separately:

IASB Term	**IPSAS Term**
Enterprise	Entity
Balance Sheet	Statement of Financial Position
Income Statement	Statement of Financial Performance
Equity	Net assets/equity
Statement of Changes in Equity	Statement of Changes in Net Assets/Equity
Income	Revenue

Additional Term Not Defined In IPSASs

E9. IAS 41 *Agriculture* refers to the definition of "Government Grants" in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. IAS 20 defines "government grants" as follows:

> ***Government grants** are assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.*

Staff will provide an update to this definition at the July meeting if the IASB issues its ED before that meeting.

There is no IPSAS equivalent to IAS 20. The PSC is currently progressing a project on non-exchange revenue, including government grants.

† IPSASs on these topics fall into the "type 1" endorsements, as proposed in the strategy on harmonization.

Appendix A to IAS 41

E10. Appendix A to IAS 41 is reproduced in this Standard. Appendix A contains examples illustrating the operation of the IAS. Appendix A is not part of the authoritative IAS, but is included as an aid to understanding the IAS. Similarly, Appendix A is not part of the authoritative IPSAS XX.

Interpretations of International Financial Reporting Standards

E11. There are no Standing Interpretation Committee Interpretations (SICs) or International Financial Reporting Interpretation Committee Interpretations (IFRICs) on issue in relation to IAS 41.

Amendments to Existing IPSASs

E12. This Standard amends existing International Public Sector Accounting Standard IPSAS 9 *Revenue from Exchange Transactions* as set out below. These amendments were also made to IAS 18 *Revenue* when IAS 41 was issued by the IASB. IAS 41 also amended other IASs, however the equivalent IPSASs are included in the IPSAS improvement program and all amendments to those IPSASs are included as part of that program.

Amendments to IPSAS 9 *Revenue from Exchange Transactions*

E13. This Standard amends paragraph 10 of IPSAS 9 to read as follows:

10. This Standard does not deal with revenues:

(a) addressed in other International Public Sector Accounting Standards, including:

(i) lease agreements (see International Public Sector Accounting Standard IPSAS 13 *Leases*);

(ii) dividends arising from investments which are accounted for under the equity method (see International Public Sector Accounting Standard IPSAS 7 *Accounting for Investments in Associates*); and

(iii) gains from the sale of property, plant and equipment (which are dealt with in Standards on *Property, Plant and Equipment*);

(b) arising from insurance contracts of insurance entities;

(c) arising from changes in the fair value of financial assets and financial liabilities or their disposal (guidance on accounting for financial instruments can be found in International Accounting

Standard IAS 39, *Financial Instruments: Recognition and Measurement*);

(d) arising from changes in the value of other current assets;

(e) arising from initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IPSAS XX *Agriculture*~~natural increases in herds, and agricultural and forest products~~; ~~and~~

(f) arising from the initial recognition of agricultural produce (see IPSAS XX *Agriculture*); and

(~~f~~g) arising from the extraction of mineral ores.

E14. This Standard deletes the third bullet point of the "Comparison with IAS 18", which notes that amendments made to IAS 18 by IAS 41 are not incorporated into IPSAS 9.

IT IS INTENDED THAT THE FULL TEXT OF IAS 41 *AGRICULTURE* WILL FOLLOW AT THIS POINT IN THE EXPOSURE DRAFT OF THE PROPOSED IPSAS. IT IS ALSO PROPOSED THAT THE FULL TEXT OF IAS 41 WILL ALSO APPEAR IN THE FINAL IPSAS

IAS 41 *Agriculture*

Summary and Staff Recommendation – To support PSC review of applicability of IAS 41 to the public sector. (*To be considered when PSC prepares the Exposure Draft.)*

The IASB issued IAS 41 *Agriculture* in December 2000. The PSC does not have an equivalent IPSAS on agriculture. Staff have reviewed IAS 41 and propose that it be endorsed.

Part 1 – Recommendation on dealing with Agriculture

IAS 41 specifies that fair value be applied to measure biological assets and agricultural produce when they relate to agricultural activity. This is because fair value captures both the physical changes and price changes of these assets during the period of growth, degeneration, production and procreation up to the point of harvest. In relation to the accounting for similar biological assets and agricultural produce, Staff are of the view that there is no public sector specific reason to depart from the requirements of IAS 41. The use of fair value also lines up with the requirements in statistic-based reporting systems such as Government Finance Statistics (GFS) and System of National Accounts (SNA) in terms of the measurement of assets.

Staff Recommendation

Staff propose that the PSC should not develop an IPSAS on agriculture, and should positively endorse IAS 41 (refer to the Strategy Paper for the meaning of "positive endorsement" approach). Endorsing IAS 41 will also solve the cross-referencing difficulty that the PSC had experienced in developing certain IPSASs (see below for a list of them).

However, Staff acknowledge that biological assets that public sector entities hold may be for environment, recreation, aesthetics and research purposes, for example, forests for environmental protection, animals in national parks, trees in public botanic gardens, or blood cells in national laboratories, to which IAS 41 does not apply.

Implications of Endorsing IAS 41 for existing IPSASs

IAS 41 impacts the scope exclusion in 5 existing IPSASs, which are:

- IPSAS 9 *Revenue from Exchange Transactions* (IAS 18 *Revenues*)
- IPSAS 12 *Inventories* (IAS 2 *Inventories*)
- IPSAS 13 *Leases* (IAS 17 *Leases*)

- IPSAS 16 *Investment Property* (IAS 40 *Investment Property*); and
- IPSAS 17 *Property, Plant and Equipment* (IAS 16 *Property, Plant and Equipment*)

IPSAS 9 states that the Standard does not deal with revenues "arising from natural increases in herds, and agricultural and forest products". This was consistent with its equivalent IAS 18 prior to the issuance of IAS 41. However, the words used in IAS 18 were changed to "This Standard does not deal with revenue arising from initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IAS 41); initial recognition of agricultural produce (see IAS 41)" upon issuing IAS 41.

Similarly, certain biological assets and agricultural products were excluded from the scope of IPSAS 12, IPSAS 13, IPSAS 16 and IPSAS 17. The scope exclusions in the 4 IPSASs were consistent with those in the equivalent IASs prior to the issuance of IAS 41. However, upon issuing IAS 41 the description of the scope exclusions in the equivalent IASs was changed to "biological assets related to agricultural activity (see IAS 41 *Agriculture*)", except that IAS 2 *Inventories* states that it "does not apply to biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 *Agriculture*)".

Staff Recommendation

Consistent with the "positive endorsement" recommendation, Staff are of the view that the scope exclusions in the impacted 5 IPSASs should be updated to reflect the changes made to their equivalent IASs upon issuing IAS 41. Where IASs refer to IAS 41 *Agriculture*, the equivalent IPSASs should refer to IPSAS XX *Agriculture* (ie., the positively endorsed version of IAS 41).

Part 2 – Summary of IAS 41

Part 2 provides a brief summary of main requirements of IAS 41.

1. Introduction

1.1 IAS 41 *Agriculture* was issued in December 2000. It is effective for annual financial statements covering periods beginning on or after 1 January 2003. Earlier application is encouraged.

2. Scope

2.1 IAS 41 applies to accounting for the following when they relate to agricultural activity: (a) biological assets; (b) agricultural produce at the point of harvest (after harvest, IAS 2 *Inventories* or another applicable

IFRS/IAS is applied); and (c) government grants related to biological assets. Agricultural activity is defined as the management by an entity[1] of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

2.2 IAS 41 does not apply to:

(a) land related to agricultural activity (see IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*); and

(b) intangible assets related to agricultural activity (see IAS 38 *Intangible Asset*).

3. Recognition and Measurement

3.1 IAS 41 requires a biological asset or agricultural produce to be recognized when, and only when:

(a) the entity controls the asset as a result of past events;

(b) it is probable that the future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably.

3.2 A biological asset is required to be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs (hereinafter refers to "net fair value"), except on initial recognition for a biological asset for which market-determined prices, values or other estimates of the fair value are not available. In such a case, that biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity should measure it at its net fair value. Such an exception only applies to the initial recognition of biological assets.

3.3 Agricultural produce harvested from an entity's biological assets should be measured, in all cases, at its net fair value at the point of harvest. Such measurement is the cost at that date when the entity applies IAS 2 or another applicable IFRS/IAS.

3.4 In determining the fair value of a biological asset or agricultural produce, the following guidance could be considered:

[1] When IAS 41 was issued, the IASC used "enterprise" rather than "entity". However, the IASB has replaced "enterprise" with "entity", a more neutral term.

(a) If an active market exists, an entity uses the quoted market price in that market. If an entity has access to different active markets, the entity uses the most relevant one;

(b) If an active market does not exist, an entity uses market-determined prices or values such as the most recent market transaction price, market prices for similar assets with adjustments to reflect differences or sector benchmarks, for example, the value of cattle expressed per kilogram of meat;

(c) When market-determined prices or values are not available for a biological asset in its present condition, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining its fair value.

3.5 Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market.

3.6 Gains or losses arising on initial recognition of a biological asset and agricultural produce at net fair value and subsequent changes in net fair value of a biological asset should be included in profit or loss for the period in which it arises.

4. Government Grants

4.1 Government grants related to a biological asset that is measured at its net fair value should be treated in the following manner:

(a) an unconditional government grant related to a biological asset should be recognized as income when, and only when, the government grant becomes receivable;

(b) a conditional government grant related to a biological asset, including where a government requires an entity not to engage in specified agricultural activity, should be recognized as income when, and only when, the conditions attaching to the grant are met.

4.2 If government grants relate to a biological asset that is measured at its cost less any accumulated depreciation and any accumulated impairment losses, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied. IAS 20 requires that government grants should be recognized as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis.

5. Presentation and Disclosure

5.1 IAS 41 requires the carrying amount of an entity's biological assets to be presented separately on the face of the balance sheet. Other disclosure requirements include:

(a) the nature of its activities involving each group of biological assets;

(b) the methods and significant assumptions determining the fair values;

(c) the net fair value of agricultural produce harvested during the period;

(d) the aggregate gain or loss arising on initial recognition and subsequent change in net fair value during the current period;

(e) a reconciliation of changes in carrying amount of biological assets between the beginning and the end of the current period;

(f) carrying amounts of biological assets whose title is restricted or that are pledged as security for liabilities;

(g) commitments for the development or acquisition of biological assets; and

(h) financial risk management strategies related to agricultural activity.

5.2 If the fair value of biological assets cannot be reliably measured, additional disclosures are required such as a description of the biological assets, an explanation of why fair value cannot be measured reliably, the depreciation method, the useful lives or the depreciation rates, impairment losses and reversals of impairment losses.

5.3 If an entity is provided with government grants related to its biological assets, the nature and extent of the grants, unfulfilled conditions and other contingencies attaching to the grants as well as significant decreases expected in the level of the grants are also required to disclose.

IFAC PUBLIC SECTOR COMMITTEE (PSC)   WORK PLAN 2004 - 2009

Technical Projects	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Impairment of Assets	Finalize	Issue IPSAS				***Effective Date***
Cash Basis IPSAS		Review Implementatior	Revise/Update/issue ED	Issue IPSAS		
Transitional Guidance - Study 14			Review		3rd Edition	
Development Assistance	Issue ED	Issue Cash IPSAS	***Effective Date***	consider accrual ED		***Effective Date***
Glossary		Update		Update		
Revenue - Non-Exchange	Issue ITC	Develop and issue ED	Develop IPSAS	Issue IPSAS		***Effective Date***
Social Policy Obligations	Issue ITC	Develop ED	Issue ED/develp IPSAS	Issue IPSAS		***Effective Date***
Budgetary Reporting (ex-post)	Issue Report	Ex Post ED		*Update IPSAS 1	Issue IPSAS 1	***Effective Date***
(Ex-ante/Prospective fin. info)		ExAnte SC	ExAnte ITC	ExAnte ED		ExAnte IPSAS
GFS, ESA, SNA Harmonizatio	Develop Matrix	Issue "Matrix"l Paper				
	Project Briefs	Perform Rep SC	Perform Rep ITC		Issue ED	Issue IPSAS
		Develop ED -GGS	Issue ED -GGS	Issue IPSAS		***Effective Date***
Conceptual Framework	Monitor developments	Project Brief	Develop ED	Issue ED	Consider Responses	Finalise Framework
IASB Harmonization Program						
Monitor IASB- IASs/IFRSs	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	
- IASB Improvements Project	Develop ED	Issue ED		Issue IPSASs		***Effective Date***
-Updated Preface	Develop	Issue ED		Issue Preface		
-Emp. Benefits (IAS 19)	Strategy-IASB-ED		Issue ED	Issue IPSAS		***Effective Date***
-Bus Combinations (IFRS 3)	Strategy-IASB-ED		Issue ED Endorsmnt	Issue IPSAS		***Effective Date***
-Fin. Inst: Rec/Msmnt (IAS 39)	consider strategy	Issue ED Endorsmnt		Issue IPSAS		***Effective Date***
-Intngble Assets (IAS 38)	consider strategy		Issue ED	Issue IPSAS		***Effective Date***
-Impairment (IAS 36)			Issue ED Endorsmnt (?)	Issue IPSAS		***Effective Date***
-Agriculture (IAS 41)		Issue ED Endorsmnt		Issue IPSAS		***Effective Date***
-Sale/Discont Ops (IFRS 5)		Issue ED Endorsmnt		Issue IPSAS		***Effective Date***
-Other IFRSs (Group 2)	consider strategy	Comment/IASB-EDs	ED Endorsmnt x 4	ED Endorsmnt x 3	Issue IPSAS	***Effective Date***
(See next page for Group 2)						***Effective Date***
Other Public Sector						
Heritage Assets-Recog Ms'mnt	Project Brief	Follow up activity	Develop ITC/ED	Issue ED	Issue IPSAS	***Effective Date***
Public/Private S. Arrangements	No action	consider strategy			Issue ED	
Non-financial Performance Repo	No action	consider strategy			Issue ED	
W.I.P non-exchange Services	No action	consider strategy				Develop ED
Occasional Papers	Develop USA paper	Issue USA Paper	Paper on other country			
	Survey -IPSAS use	Survey	Issue paper - monitor			
TOTAL		2 x IPSAS/6EDs	10 X ED	6xEDs, 22X IPSAS	5 x IPSAS 3 X ED	

IFAC PUBLIC SECTOR COMMITTEE (PSC) WORK PLAN 2004 - 2009						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Technical Projects						
Group 2 IASs/IFRS						***Effective Date***
- Income Tax (IAS12)			Issue ED Endorsmnt	Issue IPSAS		***Effective Date***
-Retirement Plans (IAS26)			Issue ED Endorsmnt	Issue IPSAS		***Effective Date***
-Bank Disclosures(IAS30)			Issue ED Endorsmnt	Issue IPSAS		***Effective Date***
-Earnings/Share(IAS33)				Issue ED Endorsmnt	Issue IPSAS	***Effective Date***
-Share Payments(IFRS2)				Issue ED Endorsmnt	Issue IPSAS	***Effective Date***
-Interim Reports(IAS34)			Issue ED Endorsmnt	Issue IPSAS		***Effective Date***
-Insurance Contacts(IFRS4)				Issue ED Endorsmnt	Issue IPSAS	***Effective Date***
-Additonal IFRSs			?	?		