

**Meeting:** IPSASB Consultative Advisory Group  
**Meeting Location:** Luxembourg, Luxembourg  
**Meeting Date:** June 26, 2017

## Agenda Item 4

For:  
☐ Approval  
☒ Discussion  
☒ Information

### Technical Director's Report on the Work Plan and Report Back on December 2016 CAG Meeting

#### Objective of Agenda Item

1. To receive the Technical Director's report on the work plan.
2. To note the work plan and key changes to the work plan since the December 2016 meeting.
3. To note the IPSASB report back on the *Public Sector Combinations*, *Financial Instruments (Updates to IPSASs 28–30)*, *Heritage*, and *Leases* projects.

#### Material(s) Presented

<a href="#">Agenda Item 4.1</a>	<a href="#">IPSASB Work Plan: June 2017</a>
<a href="#">Agenda Item 4.2</a>	<a href="#">Public Sector Combinations–Report Back</a>
<a href="#">Agenda Item 4.3</a>	<a href="#">Financial Instruments (Updates to IPSASs 28–30)–Report Back</a>
<a href="#">Agenda Item 4.4</a>	<a href="#">Heritage–Report Back</a>
<a href="#">Agenda Item 4.5</a>	<a href="#">Leases–Report Back</a>

#### Technical Director's Report on Work Plan

##### Summary of Changes agreed at March 2017 Meeting

4. Changes to the work plan that were agreed at the March 2017 meeting are:
  - (a) The Consultation Paper (CP) on *Revenue and Non-Exchange Expenses* was not approved at the March 2017 meeting. Consequently, the approval of this CP has been deferred until June 2017.
  - (b) The Exposure Draft (ED) on *Social Benefits* has been deferred until September 2017 to allow further consideration of the interaction with the *Non-Exchange Expenses* project.
  - (c) The start of the *Infrastructure Assets* project has been deferred until September 2017, so that the project can be informed by the Public Sector Measurement project.

- (d) The *Emissions Trading Schemes* project has been removed from the work plan following the IPSASB's decision that the staff background paper published in December 2016 is the final output from this project.

#### **Additional Changes since the December 2016 Meeting**

- 5. Following discussion between the Chair and staff the approval of the *Cash Basis IPSAS* final pronouncement has been deferred until September 2017 due to other pressures on the agenda at the June 2017 meeting.
- 6. Following discussion between the Chair and the Technical Director the detailed review of responses for the *Public Sector Specific Financial Instruments* project has been deferred until March 2018. This will release staff resources to work on the *Strategy and Work Plan Consultation* and will align the review of responses with the review of the responses to the *Update to IPSASs 28–30, Financial Instruments* Exposure Draft.
- 7. Approval of the Exposure Draft (ED) on *Leases* has been deferred until September 2017 as a result of the IPSASB deciding to further consider two variants of the grant of a right of use model for lessor accounting. The IPSASB will also need to ensure that the selected model is compatible with IPSAS 16, *Investment Property*.
- 8. The Consultation Paper on *Heritage* was approved in March 2017, rather than December 2016. Consequently, later phases of this project have been deferred by three months.
- 9. An additional project on the *Strategy and Work Plan Consultation* has been added to the work plan.

#### **Pressures on Respondents**

- 10. At the IPSASB's first work plan session at the December 2016 meeting, a number of IPSASB members highlighted the workload issues for respondents potentially arising from the approvals of consultation documents that are scheduled for 2017. Currently the ED, Update to IPSAS 28-30, Financial Instruments, and the CP, Revenue and Non-Exchange Expenses, are scheduled for approval at this meeting, and the EDs on Social Benefits and Leases are scheduled for approval at the September meeting. The Chair and Staff will monitor this issue and come up with proposals for alleviating this burden, dependent on developments at the June and September meetings. Such measures could include phasing and extending some response deadlines, as suggested by CAG members, which would also allow additional time for translation where required.

#### **Future CAG Meetings**

- 11. The work plan in Agenda Item 4.1 includes indicative agenda items for the CAG meetings until the end of 2018. This initial indication of agenda items is intended to allow CAG members time to familiarize themselves with the projects that will be discussed at those CAG meetings. However, the agendas will be subject to change, depending on the progress on projects made by the IPSASB.

### **IPSASB CAG December 2016 Report Back**

#### **Public Sector Combinations**

- 12. The IPSASB CAG discussed the *Public Sector Combinations* project in December 2016. Following consideration of the CAG advice in December, the IPSASB has decided:

- (a) Consistent with the advice of most CAG members, not to include a disclosure requirement on prospective combinations;
- (b) Contrary to CAG advice, not to amend the illustrative examples, as no specific examples were identified and the IPSASB did not wish to delay the approval of the Standard; and
- (c) Consistent with CAG advice, to provide for a one year measurement period for both amalgamations and acquisitions.

Further details of the IPSASB's response to the points raised by CAG members at the December 2016 meeting are provided in [Agenda Item 4.2](#).

#### **Financial Instruments (Updates to IPSASs 28–30)**

13. The IPSASB CAG discussed the *Financial Instruments (Updates to IPSASs 28–30)* project in December 2016. Following consideration of the CAG advice in December, the IPSASB has decided:
- (a) Consistent with the advice of CAG members to provide more educational material, staff has developed an enhanced At-a-Glance document; and
  - (b) Consistent with the advice of CAG members to provide more educational material, staff will develop an educational webinar to support the publication of the ED in summer 2017 that works through some examples to illustrate the principles in the ED – this will supplement the educational webinar series that highlights some of the key changes in principles from IPSAS 29 previously prepared by staff.

Further details of the IPSASB's response to the points raised by CAG members at the December 2016 meeting are provided in [Agenda Item 4.3](#).

#### **Heritage**

14. The IPSASB CAG discussed the *Heritage* project in December 2016. Following consideration of the CAG advice in December, the IPSASB has decided:
- (a) Consistent with the advice of CAG members, the Consultation Paper, *Financial Reporting for Heritage in the Public Sector*, proposes that information on heritage should be reported in general purpose financial reports.
  - (b) Consistent with the advice of CAG members, the Consultation Paper discusses:
    - (i) Recognition and measurement (initial and subsequent) of heritage assets; and
    - (ii) Reporting of information about heritage-related costs and obligations.
  - (c) Consistent with the advice of some CAG members, the Consultation Paper includes a preliminary view that heritage items that meet the Conceptual Framework's recognition criteria should be recognized.
- And
- (d) Contrary to CAG advice, the Consultation Paper does not discuss whether heritage accounting requires a separate standard or guidance within an existing standard; consideration of this question has been deferred until later in the project.

Further details of the IPSASB's response to the points raised by CAG members at the December 2016 meeting are provided in [Agenda Item 4.4](#).

## **Leases**

15. The IPSASB CAG discussed the *Leases* project in December 2016. Following consideration of the CAG advice in December, the IPSASB has decided:
- (a) Consistent with the advice of CAG members, the Exposure Draft on Leases will propose recognizing the lease receivable and the underlying asset in lessor's accounts;
  - (b) Consistent with the advice of CAG members, concessionary leases will be included within the scope of the Exposure Draft on Leases, and will adopt the same accounting for the subsidized component as for concessionary loans;
  - (c) Consistent with the advice of CAG members to provide more educational material, the IPSASB will publish an enhanced At-a-Glance document and a webinar explaining the Exposure Draft on Leases; and
  - (d) Contrary to the advice of CAG members, the IPSASB agreed not to engage with the private sector leasing industry, taking the view that that the issues raised in the IPSASB's approach to lessor accounting are public sector specific.

Further details of the IPSASB's response to the points raised by CAG members at the December 2016 meeting are provided in [Agenda Item 4.5](#).

# Agenda Item

## 4.1

June 2017

### IPSASB WORK PLAN: JUNE 2017

Project/ Initiative	Links	Jun 2017 (CAG)	Sep 2017	Dec 2017 (CAG)	Mar 2018	Jun 2018 (CAG)	Sep 2018	Dec 2018 (CAG)	H1 2019	H2 2019	H1 2020	H2 2020
A Update to IPSASs 28–30, Financial Instruments	B	ED			DI/RR	DI CAG	IP					
B Public Sector Specific Financial Instruments	A, D, E	RR <sup>a</sup> CAG			DI/RR	DI	DI/ED	DI/ED		DI/RR	DI/IP	
C Leases	D	DI/ED	DI/ED			DI/RR CAG	DI/RR	DI/IP CAG				
D Revenue <sup>1</sup>	B, C, E, F	CP <sup>a</sup>			DI/RR	DI CAG	DI	ED CAG		RR/DI	DI/IP	
E Non-Exchange Expenses	B, C, D, F	CP <sup>a</sup>			DI/RR	DI CAG	DI	ED CAG		RR/DI	DI/IP	
F Social Benefits	D, E	DI/ED CAG	ED			DI/RR	DI	IP CAG				
G Public Sector Measurement	H, I	DI CAG	DI	CP <sup>b</sup> CAG			RR	DI/RR	ED	RR	IP <sup>c</sup>	
H Infrastructure Assets	G		DI	DI CAG	DI	CP			DI/RR	ED	RR	IP <sup>c</sup>
I Heritage	G			DI/RR CAG	DI/RR	DI/ED CAG	ED		DI/RR	DI	IP <sup>c</sup>	
J Improvements <sup>2</sup>						DI/ED		RR/IP			DI/ED	RR/IP

<sup>1</sup> Comprehensive project covering both exchange and non-exchange revenues.

<sup>2</sup> The improvements project is an ongoing biannual project that includes the following: (i) consequential amendments arising from the completion of the Conceptual Framework; (ii) general improvements to IFRS; (iii) changes intended to eliminate or narrow differences with statistical accounting; and (iv) consequential amendments arising from changes to IFRS.

Public Sector Combinations–December 2016 Report Back  
*IPSASB CAG Meeting (June 2017)*

Project/ Initiative	Links	Jun 2017 (CAG)	Sep 2017	Dec 2017 (CAG)	Mar 2018	Jun 2018 (CAG)	Sep 2018	Dec 2018 (CAG)	H1 2019	H2 2019	H1 2020	H2 2020
K <i>Review of Cash Basis IPSAS (ED issued in Feb.2016)</i>		CAG	IP									
L Strategy and Work Plan Consultation		DI CAG	PI/CP	CP CAG		RR CAG	PI/RR	ST CAG				
M IPSASB Handbook		Publish				Publish			Publish		Publish	

Key: IP = Final Standard or Amendments to IPSAS(s); RP = Final Recommended Practice Guidance; ED = Approval of Exposure Draft; PB = Project Brief; DI = Discussion of Issues; RR = Review Responses; CP = Consultation Paper; **CAG = Consultative Advisory Group Meeting**; PI = Public Interest Committee Meeting; SB = Staff Background Paper; ST = Final Strategy and Work Plan

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- <sup>a</sup> The IPSASB is addressing non-contractual receivables and non-contractual payables in the revenues and non-exchange expenses project rather than in the public sector financial instruments project.
- <sup>b</sup> Following the issuance of the amendments to IPSASs 21 and 26 as a result of the revaluation of impaired assets project, further consideration of issues such as the unit of account will be considered as part of the public sector measurement project.
- <sup>c</sup> The outcomes of the infrastructure assets and heritage assets projects will need to be informed by the outcomes of the public sector measurement project.

June 2017

## PROJECTS COMPLETED SINCE LAST WORK PLAN CONSULTATION

Project	Date Issued
IPSAS 40, <i>Public Sector Combinations</i>	January 2017
Emissions Trading Schemes—Staff Background Paper	December 2016
Narrow scope amendments: <i>Impairment of Revalued Assets</i> (Amendments to IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> , and IPSAS 26, <i>Impairment of Cash-Generating Assets</i> )	July 2016
IPSAS 39, <i>Employee Benefits</i>	July 2016
2016 Handbook of International Public Sector Accounting Pronouncements	July 2016 (online) September 2016 (print)
Narrow scope amendments: <i>The Applicability of IPSASs</i>	April 2016
<i>Improvements to IPSAS 2015</i>	April 2016
2015 Handbook of International Public Sector Accounting Pronouncements	December 2015
RPG 3, <i>Reporting Service Performance Information</i>	March 2015
IPSAS 38, <i>Disclosure of Interests in Other Entities</i>	January 2015
IPSAS 37, <i>Joint Arrangements</i>	January 2015
IPSAS 36, <i>Investments in Associates and Joint Ventures</i>	January 2015
IPSAS 35, <i>Consolidated Financial Statements</i>	January 2015
IPSAS 34, <i>Separate Financial Statements</i>	January 2015
IPSAS 33, <i>First-time Adoption of Accrual Basis IPSASs</i>	January 2015
<i>Improvements to IPSASs 2014</i>	January 2015
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	October 2014
2014 Handbook of International Public Sector Accounting Pronouncements	June 2014

### Public Sector Combinations–December 2016 Report Back

#### December 2016 CAG Discussions

1. Extracts from the draft minutes of the December 2016 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
<b>December 2016 CAG Meeting Comments</b>	
1. Mr. Müller-Marqués Berger noted that the project was close to completion, and that the question for the CAG was whether the rationale presented was appropriate.	<i>No action required.</i>
<i>Issue 1: Do the accounting approaches provide information that meets users' needs?</i>	
2. Ms. Cearns agreed that the approach and the accounting should be suitable and understandable, and that the disclosures would provide relevant information. The question would be whether the boundary between amalgamations and acquisitions is clear and will result in consistent application, or whether entities would seek to manipulate the boundary. This might need to be considered in a post-implementation review. Mr. Müller-Marqués Berger supported these comments.	Yes. IPSAS 40 issued on the basis discussed with the CAG. No further action required.
3. Mr. Matthews considered that the standard was clear, but thought that some of the Illustrative Examples muddled the waters a bit.	<i>Not taken.</i> The IPSASB noted the comment that some of the Illustrative Examples muddled the water somewhat. Because no specific examples were identified, the IPSASB agreed to retain the Illustrative Examples, as it did not wish to delay the approval of the Standard.



Representatives' and Observers' Comments	IPSASB Response
4. Mr. Matthews did not support the disclosure regarding planned acquisitions that was included in the IPSASB's agenda papers, commenting that this would be too onerous.	Yes. Disclosure of planned combinations omitted from IPSAS 40.
5. Ms. Colignon questioned how the transferor should account for the loss of an operation in an amalgamation. She considered additional guidance was required on whether this should be treated as a gain or loss through surplus or deficit or through net assets/equity.	<i>Partial uptake.</i> The Illustrative Examples in IPSAS 40 note that the transfer of an operation is accounted for in accordance with other IPSASs, which would result in a gain or loss in surplus or deficit being recognized.
6. Ms. Colignon also commented that the "no quantifiable ownership interests" indicator may need to be explored further as a standalone indicator rather than as part of the decision-making process.	<i>Not taken.</i> Based on the responses received to the Exposure Draft, the IPSASB agreed not to amend the indicators. The vast majority of respondents were in agreement with the IPSASB's approach to quantifiable ownership interests.
7. Mr. Gisby commented that transferors and quantifiable ownership interests may be appropriate topics for future work plan discussions.	<i>Deferred.</i> The IPSASB will discuss this when considering the Strategy and Work Plan.
8. Mr. Viana commented that most combinations would be amalgamations, and that it might be helpful to disclose the legal basis of the amalgamation.	Yes. Disclosure of legal basis of an amalgamation (or acquisition) included in IPSAS 40.
9. Ms. Aldea Busquets did not support the disclosure of planned combinations because these were often subject to change.	Yes. Disclosure of planned combinations omitted from IPSAS 40.

Representatives' and Observers' Comments	IPSASB Response
<p>10. Ms. Sanderson also did not support the disclosure of planned combinations. She commented that a lot of amalgamations are machinery of government changes. Sometimes it is only a team that moves rather than a whole entity, and therefore there is a question of materiality. Ms. Sanderson also noted that planned combinations may be confidential.</p>	<p>Yes. Disclosure of planned combinations omitted from IPSAS 40.</p>
<p>11. Mr. Müller-Marqués Berger questioned whether a disclosure about planned combinations might be in the public interest.</p>	<p><i>Not taken.</i> Disclosure of planned combinations omitted from IPSAS 40.</p>
<p>12. Ms. Sanderson commented that she was not sure that such a disclosure would be in the public interest.</p>	<p>Yes. Disclosure of planned combinations omitted from IPSAS 40.</p>
<p>13. Ms. Cairns commented that there is difference between combinations that have been announced and those that haven't. She noted that the accounting for a disposal can be unpalatable as a loss arises because the entity is losing assets for no compensation.</p>	<p>Yes. Disclosure of planned combinations omitted from IPSAS 40. The Illustrative Examples in IPSAS 40 note that the transfer of an operation is accounted for in accordance with other IPSASs, which would result in a gain or loss in surplus or deficit being recognized when the transfer occurs.</p>
<p>14. Mr. Matthews commented that machinery of government changes tend to have low public interest implications. It is often only the employees who are interested, and they would expect to find the relevant information elsewhere, not in the financial statements.</p>	<p>Yes. Disclosure of planned combinations omitted from IPSAS 40.</p>
<p>15. Ms. Colignon commented that better information could be provided in respect of the transferor, and noted that there were occasions where there was public interest in government reorganizations, for example the reduction in the number of regions in France.</p>	<p>Yes. Disclosure of planned combinations omitted from IPSAS 40. The IPSASB will discuss transferor accounting when considering the Strategy and Work Plan.</p>

Representatives' and Observers' Comments	IPSASB Response
16. Ms. Kiure-Mssusa commented that different people had different perspectives on government reorganizations that could not always be addressed in the financial statements.	Yes. Disclosure of planned combinations omitted from IPSAS 40.
17. Mr. Chowdhury asked about the implications of the use of fair value in acquisition accounting. Mr. Mason explained that, where entities were using the revaluation model, there would be limited changes. However, valuations would be required where entities had previously used the cost model. In a limited number of cases, entities would also need to recognize intangible assets that had not previously been recognized.	<i>No action required.</i>
18. Mr. Müller-Marqués Berger summarized the discussion as being generally supportive of the proposed approach, but noted the concerns regarding the disclosure of planned combinations.	Yes. The IPSASB considered the CAG's views in finalizing IPSAS 40. In particular, the disclosure of planned combinations was omitted from IPSAS 40.
<i>Issue 2 and 3: Will preparers be able to implement the standard by the effective date; and, are the measurement periods proposed in the draft standard appropriate?</i>	
19. Ms. Cearn's commented that an effective date of January 1, 2019 was appropriate and that no further transitional arrangements were required.	Yes. IPSAS 40 issued with an effective date of January 1, 2019. No further transitional arrangements were included.
20. Ms. Cearn's was not convinced that the proposed measurement period of two years for amalgamations was appropriate. Mr. Mason outlined the IPSASB's discussions at its September 2016 meeting on this issue. Ms. Cearn's commented that the issues would be the same for acquisitions, and that the normal approach should be for a year. She noted that there may be exceptions to this.	Yes. IPSAS 40 includes a one year measurement period for all combinations.

Representatives' and Observers' Comments	IPSASB Response
21. Ms. Sanderson noted that, in the UK, the government had bailed out a number of banks following the financial crisis. Consolidating these would have taken a lot of time, but these were exceptional circumstances. Timeliness of reporting was important, and for this reason the measurement period should be one year.	Yes. IPSAS 40 includes a one year measurement period for all combinations.

**Matters for CAG Consideration**

2. Representatives and Observers are asked to note the Report Back above.

**Appendix**

**Project: Public Sector Combinations**

**Summary**

	<b>CAG Meeting</b>	<b>IPSASB Meeting</b>
Finalization of Standard IPSAS 40	December 2016	September 2016 December 2016
Finalization of Standard IPSAS 40	June 2017 (report back)	

**CAG Discussions: Detailed References**

IPSASB Staff Discussion with the CAG - Finalization of Standard IPSAS 40	<u>December 2016 CAG Discussions</u> See IPSASB CAG meeting material: <a href="http://www.ipsasb.org/system/files/meetings/files/CAG-Item-4-Public-Sector-Combinations.pdf">http://www.ipsasb.org/system/files/meetings/files/CAG-Item-4-Public-Sector-Combinations.pdf</a>
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### Financial Instruments (Updates to IPSASs 28–30)–December 2016 Report Back

#### December 2016 CAG Discussions

1. Extracts from the draft minutes of the December 2016 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
<b>December 2016 CAG Meeting Comments</b>	
<p><i>Summary of the introduction presented on the topic, followed by specific questions to the CAG.</i></p> <p><i>Concern 1: IPSAS financial instruments standards based on the IASB's standards (designed for the private sector) and therefore are not appropriate for the public sector;</i></p> <ul style="list-style-type: none"> <li><i>• The economic substance is the same for most transactions in both the public and private sectors, and where they are not, the IPSASB has added additional guidance (concessionary loans, guarantees issued through non-exchange transactions);</i></li> <li><i>• Financial instruments transactions often occur between the public and private sectors; and</i></li> <li><i>• The IPSASB has a project in process on public sector specific transactions.</i></li> </ul> <p><i>Concern 2: Historical cost is more appropriate for the public sector, because cost to acquire a financial instrument or provide a loan is often more relevant because public sector entities often hold financial instruments to maturity;</i></p> <ul style="list-style-type: none"> <li><i>• Financial statements are meant to convey the resources controlled by the entity and claims against those resources;</i></li> <li><i>• Often an incorrect assumption is made that the financial instruments standards only permit fair value; and</i></li> <li><i>• Measurement is based on the classification model which is dependent on the economic substance of the instrument and how it is managed by the entity.</i> <p><i>Concern 3: Fair value measurement is complex;</i></p> <ul style="list-style-type: none"> <li><i>• This is a generalization, initial measurement reflects a transaction price, which is not complex;</i></li> <li><i>• The complexity of financial instruments measurement is on a continuum ranging from instruments valued using inputs from an open, active and orderly market (not complex) to those valued using unobservable inputs (more complex). The truly challenging instruments to value are a small proportion of instruments commonly used in the public sector; and</i></li> <li><i>• Those in an entity that buy and sell financial instruments and those involved with risk management functions for financial instruments often have an understanding of their value. Sometimes those in a financial reporting function are not aware of the work of other functions involved in financial instrument valuation.</i></li> </ul> </li></ul>	

Representatives' and Observers' Comments	IPSASB Response
<p><i>Concern 4: Fair value introduces too much volatility.</i></p> <ul style="list-style-type: none"> <li><i>Financial instruments are contractual rights and/or obligations to future cash flows;</i></li> <li><i>The nature of the financial instruments and their cash flows make the instruments volatile. The accounting reflects the economic volatility of the instruments and is not an accounting construct;</i></li> <li><i>The classification model which determines measurement considers the management model of the financial instruments together with the economic nature of the instruments; and</i></li> <li><i>Volatility should be considered from a risk management perspective.</i></li> </ul> <p><i>The main discussion points posed to the CAG were:</i></p> <ul style="list-style-type: none"> <li><i>Are there any further issues not identified in the analysis in the paper;</i></li> <li><i>Do the identified concerns give rise to issues with financial instruments accounting in your jurisdiction;</i></li> <li><i>Do CAG members agree with the staff analysis related to the concerns; and</i></li> <li><i>Do CAG members agree with the staff view that the measurement provisions proposed in the ED provide relevant information for accountability and decision-making purposes and are therefore in the public interest?</i></li> </ul>	
<p>1. Ms. Cearns agreed with staff views expressed in the paper and presentation. She emphasized that education is an important issue. She thought it would be helpful if derivatives were discussed on their own, with an explanation as to why cost is not appropriate and does not provide sufficient information. She further emphasized the importance of continuing to message that complexity relates to the instruments themselves and is not an accounting construct.</p>	<p>Yes. The educational material accompanying the ED emphasizes the important message, that measurement complexity relates to the instruments themselves and is not an accounting construct. Further, the education material will also consider complexity related to the instruments themselves, such as derivatives and are not an accounting construct.</p>
<p>2. Mr. Gisby agreed with the points of Ms. Cearns. Elaborating his view, he noted that if the instrument is volatile, that should be reflected in the financial statements. He further commented that the education aspect is not just a public sector issue. The European Union parliament discussions around the endorsement of IFRS 9 demonstrated that there is a lack of understanding overall of financial instruments.</p>	<p>Yes. Point noted, educational material accompanying the ED will look to help with the understanding of the instruments and the accounting requirements (and how they reflect the economic nature of the instruments).</p>

Representatives' and Observers' Comments	IPSASB Response
<p>3. Mr. Matthews notes that education is important, however, the IPSASB should be cautious to not be seen as arrogant. He stressed it is important to understand users' needs, as well as to explain financial instruments themselves more generally rather than education initiatives on various accounting issues such as fair value measurement. Education based on types of financial instruments may change the behaviour of entities entering into financial instruments transactions.</p>	<p>Yes. Point noted, the educational material accompanying the ED will focus on providing information on the instruments themselves and how the accounting reflects the economic nature of the instruments.</p>
<p>4. Ms. Kim agreed with the previous comments. However, she noted that recognition and measurement of financial assets and financial liabilities have different requirements. Therefore, her view is that one of the arguments expressed in the staff paper (that the private sector is often a counter-party to public sector financial instruments transactions and the requirements should therefore be consistent) is not compelling. She noted that measurement of level 3 instruments causes the most difficulty. She noted that US GAAP provides a practical exemption for level 3 equity instruments which might be worth considering if it has not been already.</p>	<p><i>No action required.</i> The IPSASB agrees that the requirements for recognizing and measuring financial assets and financial liabilities are different. Where a financial instrument transaction, for example a loan, involves both a public sector entity and a private sector entity, the accounting should not be dependent on whether the public sector entity is the lender or the borrower, but should be the same in both cases. The IPSASB process for reviewing and modifying IASB documents notes that when transactions are the same in both the public and private sector, IASB guidance should be followed (with changes for public sector terminology incorporated).</p> <p>Yes. The US GAAP guidance and practical exemption was considered in the development of the ED. However, for the reasons noted in CAG member comment #16 below, the IPSASB agreed to follow the principle and not introduce an exemption.</p>
<p>5. Mr. Müller-Marqués Berger questioned whether the volatility is caused by the measurement model or is rather a result of the instrument's characteristics? The measurement approach should try to reflect the economics of the instrument.</p>	<p>Yes. The point is consistent with IPSASB discussions, that the volatility is a result of the economic characteristics of the instrument and not because of the measurement model.</p>



Representatives' and Observers' Comments	IPSASB Response
<p>6. Ms. Kim noted that volatility of the instrument may impact the accounts when a hedge transaction is undertaken by an entity, but the entity does not apply optional hedge accounting.</p>	<p>Yes. Hedge accounting will continue to be an option in the ED (consistent with IAS 39 and IFRS 9 requirements).</p>
<p>7. Mr. Romooah noted that fair value is better than cost in many cases, but complex. It is his feeling that preparers should be given a choice.</p>	<p><i>Partial uptake.</i> The IPSASB agreed that the measurement requirements will be consistent with IFRS 9, where the classification based on the nature of the instrument and the intentions for which it is held will determine the measurement of the instrument.</p>
<p>8. Ms. Colignon agreed that financial instruments are complex. She noted that in her jurisdiction there are concerns with the use of fair value. Public sector considerations need to be taken into account; for instance, in her jurisdiction, speculation is not an activity of public sector entities. The specificities of the public sector need to be captured to address the information needs of users and to gain some buy-in of the principles set out (for instance through a relevant design for the structure of the actual standard).</p>	<p><i>Partial uptake.</i> The ED is structured in a similar manner to other IPSAS standards and consistent with the underlying IFRS 9 (and has been considered in accordance with the IPSASB's policy for reviewing and modifying IASB documents).</p> <p>Further, the proposed classification model in the ED (consistent with IFRS 9) is dependent on the contractual characteristics of the instrument and how it is managed (therefore speculative transactions will be factored in the assessment of classification of financial instruments).</p>
<p>9. Mr. Müller-Marqués Berger noted in Germany, public sector entities are not allowed to enter into speculative instruments. However, in practice, some entities do enter into such financial instruments transactions, because they do not appropriately understand the risks involved.</p>	<p><i>No action required.</i> See response to CAG member comment #8.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>10. Mr. Viana noted that his view is that fair value should not be stretched to the point where it is not accepted. He asked if examples for category C transactions noted in the agenda paper were being developed. Mr. Smith noted that the IPSASB meeting agenda papers include the detail technical issues, and the CAG session is meant to cover the higher level public interest issues. He noted that detailed public sector examples, including those which are category C transactions in the CAG paper were being developed.</p>	<p><i>No action required.</i></p>
<p>11. Mr. Yousef noted that in his view the principles in the IFRS financial instruments standards should be followed as closely as possible. He further noted that if the public sector should not undertake specific transactions (such as speculative transactions), then laws or regulations should be used to ensure they are not allowed to transact.</p>	<p>Yes. The ED has been developed considering the IPSASB policy for reviewing and modifying IASB documents, and departures only introduced for terminology and where public sector specific transactions are identified. The ED includes specific public sector guidance for public sector specific transactions such as concessionary loans and financial guarantees issued through none exchange transactions.</p>
<p>12. Ms. Aldea Busquets noted that the European Union is using more and more financial instruments to leverage private investment. In her view the accounting between the public sector and private sector should be harmonized further, as it is quite difficult to have different bases for the private and public sectors. She supported the proposals in the paper, but questioned if some exceptions are needed; for example when there is no market. Further, she noted that disclosures for financial instruments can be very complex, and wondered if there could be a more focused disclosure approach.</p>	<p>Yes. The ED has been developed considering the IPSASB policy for reviewing and modifying IASB documents, and departures only introduced for terminology and where public sector specific transactions are identified. The ED includes specific public sector guidance for public sector specific transactions such as concessionary loans and financial guarantees issued through none exchange transactions.</p> <p><i>Deferred.</i> The IPSASB is monitoring the IASB disclosure initiative, and may review the disclosures for financial instruments once this is complete.</p>

Representatives' and Observers' Comments	IPSASB Response
<p>13. Ms. Sanderson noted that fair value is an important issue in her jurisdiction. For example, if invested in a fund, it is important to know the fair value, in case those resources are needed. She agreed that disclosures are long and complex, and compliance focused. She believed a consideration of users' information needs would be a better focus and would make the disclosures more useful and accessible.</p>	<p>Yes. The ED has been developed (including disclosure requirements – see response to CAG member comment #12) considering the IPSASB policy for reviewing and modifying IASB documents, and departures only introduced for terminology and where public sector specific transactions are identified. The ED includes specific public sector guidance for public sector specific transactions such as concessionary loans and financial guarantees issued through none exchange transactions.</p>
<p>14. Mr. Chowdhury asked a question as to how a public sector bank would account for an open ended mutual fund, and how fair value would be measured?</p>	<p><i>No action required.</i> See CAG member comment #15 below.</p>
<p>15. Ms. Cearns responded that it would be in the same manner as private sector mutual funds. Ms. Cearns noted that financial statements are issued at a point in time, but such mutual funds monitor the fair value of the investments contained in the fund almost daily, as members join the fund and sell their investment in the fund. These types of mutual funds are generally valued on the basis of the value of the underlying investments. Ms. Cearns also noted that if a public sector entity holds an instrument, it must have some idea of the value, otherwise how is it appropriately managing the instruments.</p>	<p><i>No action required.</i></p>

Representatives' and Observers' Comments	IPSASB Response
<p>16. Ms. Cearns further noted that IFRS 9 was a principles-based standard. She noted that exceptions to the principles are a big problem and therefore does not support introducing exceptions. She emphasized that based on her experience, she struggled with the argument that coming up with fair value of some public sector financial instruments is not possible. It may be a challenge to come up with a fair value, but how can an entity manage the financial instrument if it cannot determine a value for it.</p>	<p>Yes. The ED has been developed considering the IPSASB policy for reviewing and modifying IASB documents, and departures only introduced for terminology and where public sector specific transactions are identified. The ED includes specific public sector guidance for public sector specific transactions such as concessionary loans and financial guarantees issued through none exchange transactions.</p> <p>Yes. In developing the ED the IPSASB considered if in the public sector some practical exemptions to principles were needed. Similar to the reasons provided by Ms. Cearns, the IPSASB agreed to closely follow the IFRS 9 principles in the authoritative material and to help users better understand those principles by including more public sector specific illustrative examples and implementation guidance.</p>
<p>17. Mr. Viana noted that fair value is more subjective in his view than historical cost.</p>	<p><i>No action required.</i></p>
<p>18. Mr. van Schaik noted he is fully supportive of using fair value to measure financial instruments. However, he did note that this may be a barrier to adoption in some jurisdictions, for example, in the European Union, concessionary loans have been provided to certain countries because of the sovereign debt crisis. If IPSAS concessionary loan accounting was applied to the loans provided as a result of the sovereign debt crisis, it would show the subsidies provided from the northern countries to the southern countries, which might not be acceptable from a political point of view.</p>	<p><i>No action required.</i></p>

Representatives' and Observers' Comments	IPSASB Response
19. Mr. Müller-Marqués Berger summarized the CAG views and that measurement needs to reflect the complexity and volatility of the financial instrument. Education needs to start with the financial instrument themselves. The IPSASB needs to continue to work to communicate that financial instruments do not indiscriminately require fair value.	Yes. The IPSASB, reflecting on the views of the CAG has agreed to include education material accompanying the ED to help with the understanding of both the financial instruments and the accounting requirements proposed.

**Matters for CAG Consideration**

2. Representatives and Observers are asked to note the Report Back above.

**Appendix**

**Project: Financial Instruments Update Project**

**Summary**

	<b>CAG Meeting</b>	<b>IPSASB Meeting</b>
Development of Exposure Draft	December 2016	June 2016 September 2016 December 2016
Development of Exposure Draft	June 2017 (report back)	June 2017

**CAG Discussions: Detailed References**

IPSASB Staff Discussion with the CAG —	<u>December 2016 CAG Discussions</u> See IPSASB CAG meeting material: <a href="http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-5-Financial-Instruments.pdf">http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-5-Financial-Instruments.pdf</a>
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### Heritage–December 2016 Report Back

#### December 2016 CAG Discussions

1. Extracts from the draft minutes of the December 2016 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
<b>December 2016 CAG Meeting Comments</b>	
<i>Issue 1: Is information on heritage in the public interest and, if so, what type of information should be reported?</i>	
CAG Members viewed information on heritage as being in the public interest. There were different views on what type of information should be reported.	Yes. The Heritage Consultation Paper (CP) <sup>3</sup> includes IPSASB Preliminary Views (PVs) that support reporting information on heritage.
1. Mr. Gisby noted that governments' expenditure on heritage preservation is in competition with other priorities (e.g. social benefits) and the public needs to know the costs so that they can consider those in the context of those other priorities.	Yes. The CP discusses subsequent measurement of heritage assets, which has implications for the reporting of information on heritage-related costs.
2. Mr. Romooah emphasized the importance of providing heritage information; however, he was unsure what information exactly was needed. He questioned whether recognition in the financial statements is required to ensure heritage items are appropriately managed.	<i>Not taken.</i> The IPSASB's preliminary view is that heritage items that meet the Conceptual Framework's recognition criteria should be recognized. However, the CP asks constituents for their views on this.
3. Mr. Romooah noted that a consideration of the obligations arising for governments from heritage items was important, as well as considering the extent to which such items generate revenue.	Yes. The CP discusses whether heritage-related responsibilities result in obligations for financial reporting purposes. The CP notes that many heritage items do not generate revenue although some do.

<sup>3</sup> Consultation Paper, *Financial Reporting for Heritage in the Public Sector*, which the IPSASB approved in March 2017 and published in April 2017.

Representatives' and Observers' Comments	IPSASB Response
4. Mr. Müller-Marqués Berger noted that heritage items could be captured in a separate report outside the financial statements.	<i>Partial uptake:</i> The CP explains that entities may apply the IPSASB's three Recommended Practice Guidelines (RPGs) and present information on heritage outside of the financial statements in accordance with an RPG. However its primary focus is on information in the financial statements.
5. Mr. Idris noted that it is important to provide information about heritage items. Given they are public assets, there is a duty to provide transparent information on maintenance costs, as well as the revenue generated by them.	Yes. The CP discusses subsequent measurement of heritage assets, which relates to reporting of information on heritage-related costs. It notes that heritage items can generate revenue.
6. Mr. Chowdhury noted it is in the public interest to provide information on heritage items; however, he noted that valuation of such items will be a challenge, and is likely to depend on the particular asset.	Yes. The CP acknowledges that measurement of heritage assets can be challenging. The IPSASB's preliminary view is that in many cases it will be possible to measure heritage assets.
7. [Mr. Chowdhury] considered that the most important information relates to the public sector entity's ability to maintain and preserve the items. Further, information on future costs to preserve and maintain heritage items is important. For example, how do you value something like the Bengal tiger, and what are the future costs to ensure its preservation as a species?	<i>Partial uptake:</i> The CP notes that, for some entities, application of the guidelines in RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> , and/or RPG 2, <i>Financial Statement Discussion and Analysis</i> , could support reporting on their ability to meet future heritage-related costs.
8. Ms. Kiure-Mssusa agreed that heritage information is needed. She said that in her jurisdiction for example, there is the question of whether elephants should be considered heritage items, and if so how should they be recognized and what the appropriate valuation method is. Is control of the animals one of the key factors related to recognition?	<i>Partial uptake:</i> For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. The CP asks for constituents' views on that approach.



Representatives' and Observers' Comments	IPSASB Response
<p>9. Mr. Viana believed that it would be appropriate to recognize heritage items either in the notes to the financial statements or in a separate report. Mr. Viana questioned what the impact on the financial ratios of public sector entities of recognizing large heritage assets on the balance sheet would be. He questioned if the ratios would still provide any meaningful information.</p>	<p>Yes. The IPSASB's preliminary view is that heritage items that meet the Conceptual Framework's recognition criteria should be recognized. The CP asks constituents for their views on this.</p>
<p>10. Ms. Cearns highlighted that there is a boundary issue and definition overlap to consider. For example, when considering some of the animal examples discussed, what is the boundary between items that are considered heritage and those considered biological assets. There is also an issue of determining the difference between maintenance expenses and capital improvements for certain heritage items.</p>	<p><i>Partial uptake:</i> For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. The CP asks for constituents' views on that approach.</p>
<p>11. Ms. Sanderson noted that heritage should be recognized on the balance sheet, and that these items can often be valued. She noted it is in the public interest to recognize such items mainly for stewardship and performance monitoring.</p>	<p>Yes. The IPSASB's preliminary view is that heritage items that meet the Conceptual Framework's recognition criteria should be recognized. The CP asks constituents for their views on this.</p>
<p>12. Ms. Sanderson believes the issue of maintenance expenses needs to be considered more holistically with other valuation issues. For example, why is maintenance of heritage more important or different than other types of assets that require maintenance (e.g., roads)?</p>	<p>Yes. The IPSASB's preliminary view is that the special characteristics of heritage assets do not result in a need for different treatment with respect to their subsequent measurement. The CP asks constituents for their views on this.</p>
<p>13. Ms. Sanderson is not yet convinced that heritage requires a separate standard, while acknowledging that discussion in some sort of financial report would be a good practice and useful.</p>	<p><i>Deferred:</i> The CP does not address the question of whether or not heritage accounting will require a separate standard. The IPSASB will consider this later in the project.</p>

Representatives' and Observers' Comments	IPSASB Response
14. Mr. Gisby noted in his view there is fundamentally no difference between heritage assets and other assets, except for the emotional aspect.	<i>Partial uptake:</i> The CP acknowledges that heritage items have special characteristics and asks constituents for their views on whether those special characteristics have implications for financial reporting.
15. Mr. van Schaik agreed that heritage assets are very similar to other assets, but in his view that should not prohibit additional guidance.	<i>Partial uptake:</i> The CP does not address the question of whether or not additional guidance will be needed for heritage accounting. Some heritage measurement issues have been referred to the IPSASB's Public Sector Measurement Project, which will consider measurement guidance.
16. Mr. Yousef noted that there are not a lot of heritage assets in Abu Dhabi, his jurisdiction. In his view, there needs to be a boundary identified, and it would seem that if heritage items may overlap with existing standards, the information may not enhance the financial statements.	Yes: The CP discusses heritage identification, proposes a description of heritage items, and asks constituents for their views.
17. [Mr. Yousef] further noted that comparability is an important qualitative characteristic in the IPSASB's Conceptual Framework. However, he questioned whether comparability is possible given the unique nature of heritage items. Therefore, in his view, reporting on heritage should be in a report outside the financial statements.	<i>Not taken.</i> The CP allows that entities may choose to present heritage-related information outside the financial statements, applying RPGs. However, The IPSASB's preliminary view is that heritage items that meet the Conceptual Framework's recognition criteria should be recognized, so that information will be included in the financial statements.
18. Ms. Cearns noted that some heritage assets are unique, so there are no assets to compare them with. A measurement objective would help with valuation of these unique items.	<i>Partial uptake:</i> The CP does not discuss a measurement objective especially for heritage assets. It applies the Conceptual Framework's measurement objective when it discusses measurement of heritage asset.

Representatives' and Observers' Comments	IPSASB Response
<p>19. Mr. Müller-Marqués Berger summarized the discussion. He noted that the CAG seemed to have a common view that recognition of heritage items is in the public interest.</p> <p>However, he noted that there were different views as to whether a heritage standard is required or if such items can be dealt with in existing standards.</p> <p>Others raised views that heritage preservation might be better served by reporting outside of the financial statements.</p> <p>The CAG also indicated that comparability is important, as is determining the appropriate measurement approach.</p>	<p>Yes. The IPSASB's preliminary view is that heritage items that meet the Conceptual Framework's recognition criteria should be recognized.</p> <p><i>Deferred:</i> The IPSASB will consider the question of whether or not heritage accounting requires a separate standard later in the project.</p> <p><i>Not taken.</i> The CP focuses on possible recognition of heritage assets in the financial statements, although it also explains that entities may present heritage-related information outside of the financial statements, applying the RPGs.</p> <p>Yes. The CP discusses measurement of heritage assets.</p>

#### Matters for CAG Consideration

- Representatives and Observers are asked to note the Report Back above.

**Appendix**

**Project: Heritage**

**Summary**

	<b>CAG Meeting</b>	<b>IPSASB Meeting</b>
Development of CP, <i>Financial Reporting for Heritage in the Public Sector</i>	December 2016	September 2015 to December 2016
Approval of CP, <i>Financial Reporting for Heritage in the Public Sector</i>	June 2017 (report back)	March 2017

**CAG Discussions: Detailed References**

IPSASB Staff Discussion with the CAG – Development of Consultation Paper (CP)	<u>December 2016 CAG Discussions</u> See IPSASB CAG meeting material: <a href="http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-6_0.pdf">http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-6_0.pdf</a>
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### Leases–December 2016 Report Back

#### December 2016 CAG Discussions

1. Extracts from the draft minutes of the December 2016 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
<b>December 2016 CAG Meeting Comments</b>	
<i>Issue 1: Does the non-recognition of the underlying asset by either the lessee or by the lessor, and the non-recognition of the lease receivable by the lessor meet the users' needs of public sector financial reporting?</i>	
<ol style="list-style-type: none"> <li>1. Ms. Cearns sought clarification whether the question was asking about asymmetry? In her view symmetry may not be needed. She further noted that this issue exists in the private sector as well. Ms. Cearns noted that the IASB took a pragmatic approach and the problem they were looking to fix was related to lessee accounting. Further, the IASB did not believe they would be able to develop a solution in a reasonable amount of time in relation to lessor accounting, and did not want to delay adoption of the improved lessee accounting requirements, which was the key issue.</li> </ol>	<p><i>Not taken.</i> The IPSASB accepted that there were risks with the approach being taken. However, the IPSASB concluded that the retention of the IFRS 16 lessor accounting model for the public sector is not appropriate because it is inconsistent with the IPSASB's Conceptual Framework and other existing literature, and will not provide information that is useful for accountability and decision making purposes.</p>
<ol style="list-style-type: none"> <li>2. Ms. Cearns noted that if one of the main drivers of the IPSASB approach is consistency with IPSAS 32, <i>Service Concession Arrangements</i>, this may lead to scope creep for the project, as the IPSASB may need to consider the impact of a new lessor accounting model on IPSAS 32.</li> </ol>	<p><i>Not taken.</i> There is no scope creep for the Leases project because in a service concession arrangement the right-of-use is controlled by the grantor, while in a lease it is controlled by the lessee. The Exposure Draft will propose to scope out transactions within the scope of IPSAS 32.</p>

Representatives' and Observers' Comments	IPSASB Response
3. Ms. Sanderson highlighted a need to consider if IPSAS 32 is conceptually consistent with IFRS 16, <i>Leases</i> .	Yes. The IPSASB considered this issued and concluded that IPSAS 32 is conceptually consistent with the right-of-use model, but it is not conceptually consistent with the IFRS 16 risks and rewards incidental to ownership model. IPSAS 32 and the right-of-use model are based on control.
4. Mr. Viana noted that the treatment of the underlying asset is an important issue. In his opinion the asset should be recognized on the balance sheet. Service concession arrangements deal with "orphan" assets, those that have not been recognized anywhere. Is the recognition of the underlying asset being re-visited in this same context as IPSAS 32?	Yes. The IPSASB will propose in the Exposure Draft on Leases to recognize all assets and liabilities that meet the definition of an asset and of a liability according to the Conceptual Framework.
5. Mr Viana noted that another issue relates to consolidation. If the lessor accounting is not symmetric, you then have consolidation differences.	Yes. The IPSASB will propose in the Exposure Draft on Leases a symmetrical approach to lease accounting.
6. Mr. Viana asked what the planned approach is for the treatment of grants/donations (concessions) in leasing contracts? It was noted that this issue is still being considered by the IPSASB and a decision has not yet been made.	<i>No action required.</i>
7. Ms. Colignon noted that applying an approach drawn from IFRS 16 would result in the underlying asset not appearing in the balance sheet of either the lessor or lessee in some cases, and expressed a view that this would give rise to a public interest concern.	Yes. See response to CAG member comment #1.

Representatives' and Observers' Comments	IPSASB Response
<p>8. Mr. van Schaik recommended that the IPSASB develop an IPSAS drawn from IFRS 16 in the interim and continue work on the lessor accounting issue, because it may take a significant amount of time to develop an appropriate lessor accounting model given the experiences and challenges the IASB faced. Mr. Carruthers acknowledged this issue. However, he noted that the plan at this time is to propose a lessor accounting model in the upcoming ED.</p>	<p><i>Not taken.</i> The IPSASB decided to propose in the Exposure Draft on Leases the right-of-use model for lessee and lessor accounting. See response to CAG member comment #1.</p>
<p>9. Mr. Yousef wondered how transactions between public sector and private sector would be treated and if it is important to have similar treatments. Mr. Fonseca noted that the IPSASB is in agreement that the economics of a lease is the same in both sectors. The issue is that IFRS 16 lessor guidance does not reflect the economics of the lease (as the IASB has acknowledged).</p>	<p><i>Not taken.</i> See response to CAG member comment #1.</p>
<p>10. Ms. Sanderson noted that the impact on the complexity of consolidation should not be underestimated. There are many different lease arrangements in the public sector. She questioned if this is an issue where you can consider the public and the private sectors separately.</p>	<p>Yes. As the Exposure Draft on Leases is proposing a single model for lease accounting, the consolidation procedures are more straightforward and simple than the dual model in IFRS 16. Private sector entities apply IFRS 16 and public sector entities will apply the new IPSAS on Leases.</p>
<p>11. Ms. Cearns noted that private sector leasing companies are already offering new lease products for the public sector. She wondered if the IPSASB developed a useful lessor accounting model, would that drive the private sector to reconsider the guidance in IFRS 16.</p>	<p><i>No action required.</i></p>

Representatives' and Observers' Comments	IPSASB Response
<p>12. Mr. Matthews shared his view that leases are the same in the public or private sector. However, he expressed a view that this does not mean that the IPSASB should follow the private sector blindly. He further noted that explaining the technical aspects of lease accounting to the Canadian Public Accounts Committee might be a challenge.</p>	<p>Yes. The IPSASB will propose in the Exposure Draft on Leases a different lessor accounting model from IFRS 16. See IPSASB's reasons in paragraph 1.</p>
<p>13. Mr. Müller-Marqués Berger summarized some key points:</p> <ul style="list-style-type: none"> <li>(a) The underlying asset needs to be recognized in the financial statements;</li> <li>(b) Lease accounting is an area where constituents such as parliamentarians may struggle with the technical accounting.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Yes. The IPSASB will propose in the Exposure Draft on Leases to continue to recognize the underlying asset in lessor's accounts.</li> <li>(b) Yes. The IPSASB will publish a detailed At-a-Glance and a webinar together with the Exposure Draft on Leases explaining the main proposals for lease accounting.</li> </ul>
<p>14. Ms. Cearns recommended that the options explored by the IASB for lessor accounting be considered. Her view is that accounting for the underlying asset issue is clear cut. There is a need to consider what information the lessor should provide and should that consideration be in isolation or in the context of lessee accounting. Mr. Müller-Marqués Berger noted that, if an alternative variant of the grant of a right of use model is adopted an entity would no longer recognize a physical asset but a new right of use asset.</p>	<p>Yes. The IPSASB considered the IASB's lessor accounting models proposed in their two Exposure Drafts and concluded that they were not appropriate for public sector financial reporting because:</p> <ul style="list-style-type: none"> <li>(i) The economics of lessor accounting models proposed by the IASB were not consistent with the economics of IFRS 16 lessee accounting model. In the 2010 Exposure Draft, the IASB proposed a risks and benefits models; in the 2013 Exposure Draft, the IASB proposed a consumption of economic benefits model. IFRS 16 has the right-of-use model for lessee accounting.</li> <li>(ii) The lessor accounting models proposed by the IASB were dual models and the IFRS 16 lessee accounting model is a single model.</li> </ul>



Representatives' and Observers' Comments	IPSASB Response
<i>Issue 2: Does accounting treatment for the subsidized portion of a lease, in the same manner as a concessionary loan, meet the user's needs of public sector financial reporting?</i>	
<p>15. Ms. Colignon noted that from a user's perspective it might be difficult to communicate something on the balance sheet that does not reflect a cash flow. This is because showing an expense of public money in the lessor's financial statements that is not otherwise financed is challenging to explain to citizens.</p>	<p>Yes. The IPSASB will provide a detailed explanation of the accounting consequences of concessionary leases in the At-a-Glance that will be published together with the Exposure Draft on Leases. The Exposure Draft will have illustrative examples explaining the accounting of concessionary leases.</p>
<p>16. Mr. Carruthers noted he debate on concessionary loans in the United Kingdom. Any concession built into a loan, should on initial recognition be an upfront expense for the grantor because the economic impact of that concession needs to be reflected. There is a real cost related to the decision to provide a concessionary loan and that decision should be reflected in the financial statements. The issues related to concessionary loans and concessionary leases appear similar.</p>	<p>Yes. The IPSASB is proposing to account the subsidized component in a concessionary lease in the same way as for concessionary loans.</p>
<p>17. Mr. Müller-Marqués Berger also noted that consistency with the IPSAS 23 treatment for the recipient of the concessionary loans should be considered for concessionary leases.</p>	<p>Yes. The IPSASB is proposing to account the subsidized component in a concessionary lease according to the principles of IPSAS 23. The IPSASB is proposing to include additional guidance on concessionary leases in IPSAS 23, similar to concessionary loans.</p>

Representatives' and Observers' Comments	IPSASB Response
<i>Issue 3: What other types of activities the IPSASB could initiate to best reach out to its constituents?</i>	
18. Ms. Cearns noted that the private sector leasing industry should be considered in any discussions and outreach. She noted that these organizations have strong views on this issue and it is better to engage them as the project is developing. Further, it may also encourage the private sector to act on this issue in a more proactive manner. It may also be worthwhile to communicate with the IASB on this issue.	<i>Not taken.</i> The IPSASB is of the view that the issues raised in IFRS 16 lessor accounting are public sector specific. The private sector leasing companies apply IFRS 16.
19. Mr. Gunn noted that it is important that a communications strategy be developed. There may be differing concerns and points of resistance for different constituents.	Yes. The IPSASB will publish a detailed At-a-Glance and a video together with Exposure Draft explaining, among other things, the reasons that led the IPSASB to deviate from IFRS 16 in lessor accounting.
20. Mr. Matthews agreed that engaging with the private sector is important.	<i>Not taken.</i> The IPSASB is of the view that issues raised in IFRS 16 lessor accounting are public sector specific. The private sector leasing companies apply IFRS 16.
21. Mr Mathews noted that for the communications strategy, understandable and accessible language could be helpful. Unlike financial instruments where many view issues as highly specialized, many feel comfortable and willing to engage on lease issues.	Yes. The IPSASB will publish a detailed At-a-Glance and a video together with Exposure Draft explaining, among other things, the reasons that led the IPSASB depart public sector specific guidance instead of developing requirements consistent with IFRS 16 in lessor accounting.
22. Ms. Sanderson noted that it is a great opportunity for outreach, because many jurisdictions are in the process of implementing IFRS 16 already.	Yes. The IPSASB will publish a detailed At-a-Glance and a video together with Exposure Draft explaining, among other things, the reasons that led the IPSASB to deviate from IFRS 16 in lessor accounting.
23. Mr Sanderson agrees it is important to engage with the private sector.	<i>Not taken.</i> The IPSASB is of the view that issues raised in IFRS 16 lessor accounting are public sector specific. The private sector leasing companies apply IFRS 16.

Representatives' and Observers' Comments	IPSASB Response
24. Mr. Gisby noted that there had been a lively debate at the European Parliament when the endorsement of IFRS 16 had been discussed.	<i>No action required.</i>
25. Mr. Müller-Marqués Berger summarized the CAG's discussions as follows: (a) The CAG agreed that leases were the same in the public and private sectors, but agreed that the IPSASB should still explore different lessor accounting; (b) The CAG supported the IPSASB's approach to lessee accounting; (c) The CAG supported the approach to concessionary leases; and (d) The CAG supported a plain language communications strategy.	(a) Yes. The IPSASB explored the IASB's models in their two Exposure Drafts and two approaches of the right-of-use model.  (b) <i>No action required.</i>  (c) <i>No action required.</i>  (d) <i>No action required.</i>

#### Matters for CAG Consideration

- Representatives and Observers are asked to note the Report Back above.

**Appendix**

**Project: Public Sector Combinations**

**Summary**

	<b>CAG Meeting</b>	<b>IPSASB Meeting</b>
Lessor accounting model, concessionary leases and IPSASB's outreach	December 2016	March 2016 June 2016 September 2016 December 2016 March 2016
Lessor accounting model, concessionary leases and IPSASB's outreach	June 2017 (report back)	

**CAG Discussions: Detailed References**

IPSASB Staff Discussion with the CAG - Lessor accounting model, concessionary leases and IPSASB's outreach	<u>December 2016 CAG Discussions</u> See IPSASB CAG meeting material: <a href="http://www.ipsasb.org/system/files/meetings/files/CAG-Item-7-Leases.pdf">http://www.ipsasb.org/system/files/meetings/files/CAG-Item-7-Leases.pdf</a>
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