

Meeting: IPSASB Consultative Advisory Group
Meeting Location: Toronto, Canada
Meeting Date: December 4, 2017

Agenda Item 4

For:
☐ Approval
☒ Discussion
☒ Information

Technical Director's Report on the Work Plan and Report Back on June 2017 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 June 2017 meeting.
3. To note the IPSASB report back on the *Public Sector Measurement*, *Public Sector Specific Financial Instruments*, *Social Benefits* and *Cash Basis IPSAS* projects. The IPSASB report back on the *Strategy and Work Plan* is included in Agenda Item 5.

Material(s) Presented

| | |
|---------------------------------|--|
| Agenda Item 4.1 | IPSASB Work Plan: June 2017 |
| Agenda Item 4.2 | Public Sector Measurement–Report Back |
| Agenda Item 4.3 | Public Sector Specific Financial Instruments–Report Back |
| Agenda Item 4.4 | Social Benefits–Report Back |
| Agenda Item 4.5 | Cash Basis IPSAS–Report Back |

Technical Director's Report on Work Plan

Summary of Changes agreed at September 2017 Meeting

4. The Exposure Draft (ED) for the *Leases* project was originally scheduled for approval at the September 2017 meeting. The ED was not approved, and the IPSASB agreed that the work plan should be amended to show expected approval at the IPSASB's December meeting. As a result of this change, the approval of the final pronouncement has been delayed until June 2019.

Additional Changes since the June 2017 Meeting

5. Publication of the 2017 Handbook has been delayed, in part because IFAC is reviewing the procedures for all standard-setting boards, with the aim of introducing electronic handbooks.
6. A new section has been added to the work plan to illustrate the expected consultations during the next year. Staff considers that there are too many uncertainties to make extending this illustration beyond one year helpful to stakeholders.

Review of the Work Plan

7. At its September 2017 meeting, the IPSASB instructed the staff and the Chair to review the work plan, and to present an updated, more realistic plan at the IPSASB's December 2017 meeting. This reflected concerns raised by some members that the work plan was over ambitious. Similar comments had also been made by some CAG members.
8. Staff and the Chair reviewed the work plan, and the proposals to the IPSASB are presented at [Agenda Item 4.1](#). The proposed work plan adopts the following assumptions:
 - (a) IPSASB proposals and preliminary views (PVs) in consultation papers, and proposals in EDs, are generally supported by respondents, and consequently re-exposure of EDs is not required; and
 - (b) There is a full staff complement from March 2018 (eight technical staff supported by Head of Administration and Events) for the remaining duration of the period covered by the work plan.
 - (c) The volunteer Board is able to consistently make timely decisions on key issues to progress projects.

If these assumptions do not hold true, delays to some projects may occur.

9. The proposed work plan has been developed taking into account the following factors:
 - (a) Projects have been sub-divided into different streams where these are clearly identifiable and capable of being developed as a discrete output.
 - (b) Projects may be dependent on decisions in other projects, and the scheduling of projects reflects these dependencies.
 - (c) An analysis of the time taken to complete previous projects. Staff considers that the overall timelines included in the work plan are broadly consistent with this historical analysis.
10. Apart from Heritage and Infrastructure where, following the IPSASB's December meeting, it is proposed to defer work until December 2018, agenda items are scheduled for all meetings unless the meeting is during a consultation period. It may be necessary to reduce the number of agenda items at some meetings in order to manage both Board and staff resources.

Uncertainties Regarding the Work Plan and Annual Review of the Work Plan

11. While the review of the work plan identified the linkages between projects, numerous uncertainties remain, in particular the issues raised by respondents to consultation documents. Staff is therefore recommending to the IPSASB that the work plan is reviewed at the first three meetings of the year and that at the final meeting of the year there will be an in-depth review. Staff is proposing that the next in-depth review will be in December 2018 at the same meeting as the approval of the Strategy & Work Plan. The review will consider whether the timetable for certain projects can be accelerated in the light of developments.

Question for the CAG

12. CAG members are asked to consider the IPSASB's approach to reviewing the work plan, and to comment on whether there are other factors that they consider should be taken into account.

IPSASB CAG June 2017 Report Back

13. The following paragraphs identify some of the key IPSASB responses to comments made by CAG members. The detailed report back documents are presented in Agenda Items 4.2–4.5

Public Sector Measurement

14. The IPSASB CAG discussed the *Public Sector Measurement* project in June 2017. Following consideration of the CAG advice in June, the IPSASB has decided:
- (a) That staff and the Task Force will review IPSASs and identify where approach to fair value in IFRS 13, *Fair Value Measurement*, could be used.
 - (b) To consider GFS measurement during this project.

Public Sector Specific Financial Instruments

15. The IPSASB CAG discussed the *Public Sector Specific Financial Instruments* project in June 2017. Following consideration of the CAG advice in June, the IPSASB has decided:
- (a) To address the issues covered in the Public Sector Specific Financial Instruments CP as additional guidance to the core financial instruments guidance. This guidance will apply, by analogy, the principles in the core financial instruments IPSAS.
 - (b) That the issue of Central Banks' dividend distributions is a regulatory issue, rather than a problem with the accounting requirements.

Social Benefits

16. The IPSASB CAG discussed the *Social Benefits* project in June 2017. Following consideration of the CAG advice in June, the IPSASB has decided:
- (a) That an obligating event occurs for a social benefit when the satisfaction, by the beneficiary, of all eligibility criteria for the next benefit (which includes being alive) has occurred. In coming to this decision, the IPSASB had regard to the advice of CAG members to focus on the obligating event.
 - (b) To seek respondents' views on whether the IPSASB should develop mandatory requirements for fiscal sustainability reporting.
17. The IPSASB issued ED 63, *Social Benefits*, in October 2017 with an exposure period that expires on March 31st, 2018.

Cash Basis IPSAS

18. The IPSASB CAG discussed the *Cash Basis IPSAS* project in June 2017. Following consideration of the CAG advice in June, the IPSASB has decided:
- (a) Not to make any significant changes to the proposals made in ED 61, *Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)*. The IPSASB considers the *Cash Basis IPSAS* is a stepping stone to the adoption of accrual IPSAS in some jurisdictions and making the standard more accessible is a positive step to the goal of accruals.
 - (b) Not to undertake any further work on the *Cash Basis IPSAS* in the short-term.
19. The IPSASB issued the revised *Cash Basis IPSAS* in November 2017.

Agenda Item

4.1

IPSASB WORK PLAN: DECEMBER 2017

| Project/ Initiative | Links | Dec 2017 (CAG) | Mar 2018 | Jun 2018 (CAG) | Sep 2018 | Dec 2018 (CAG) | Mar 2019 | Jun 2019 (CAG) | Sep 2019 | Dec 2019 (CAG) | H1 2020 | H2 2020 | H1 2021 | H2 2021 |
|--|---------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|------------|------------|------------|------------|
| A Update to IPSASs 28–30, Financial Instruments | B | | DI/RR | DI CAG | IP | | | | | | | | | |
| B Public Sector Specific Financial Instruments | A, E, F | | DI/RR | DI | DI | DI/ED | DI/ED | DI/ED CAG | | | DI/RR | DI/IP | | |
| C Leases | E | DI/ED | | | DI/RR | DI/RR CAG | DI/IP | IP CAG | | | | | | |
| D Social Benefits | E, F | | | DI/RR CAG | DI | IP CAG | | | | | | | | |
| E Revenue | | | | | | | | | | | | | | |
| (i) Revenue from Contracts with Customers (IFRS 15) | B, C, D, F | | DI/RR | DI CAG | DI/ED | DI/ED | ED | | | RR | DI/IP | | | |
| (ii) Limited Update of IPSAS 23 | | | | DI CAG | DI/ED | DI/ED | ED | | | RR | DI/IP | | | |
| (iii) Grants and Other Transfers (Category B Transactions) | | | | DI CAG | DI | DI | DI/ED | DI/ED CAG | ED | | RR | DI/IP | IP | |
| F Non-Exchange Expenses | | | | | | | | | | | | | | |
| (i) Collective and Individual Services | B, C, D, E | | DI/RR | DI CAG | DI/ED | DI/ED | ED | | | RR | DI/IP | | | |
| (ii) Grants and Other Transfers | | | | DI CAG | DI | DI | DI/ED | DI/ED CAG | ED | | RR | DI/IP | IP | |
| G Public Sector Measurement | | | | | | | | | | | | | | |
| (i) Principles of Measurement | H, I | DI | DI | DI/ED CAG | DI/ED | ED | | | DI/RR | DI/IP | IP | | | |
| (ii) Consequential Amendments | | | | DI/CP CAG | DI/CP | CP | | | DI/RR | DI/ED | DI/ED | | RR/IP | |
| H Infrastructure Assets | G, I | DI CAG | | | | DI | DI | DI/ED CAG | DI/ED | DI/ED | ED | | RR/IP | |
| I Heritage | G, H | RR CAG | | | | DI | DI | DI/ED CAG | DI/ED | DI/ED | ED | | RR/DI | IP |
| J Improvements | | | DI/ED | | RR/IP | | | | | | DI/ED | RR/IP | | |

IPSASB Work Plan: December 2017
IPSASB CAG Meeting (December 2017)

| Project/ Initiative | Links | Dec 2017 (CAG) | Mar 2018 | Jun 2018 (CAG) | Sep 2018 | Dec 2018 (CAG) | Mar 2019 | Jun 2019 (CAG) | Sep 2019 | Dec 2019 (CAG) | H1 2020 | H2 2020 | H1 2021 | H2 2021 |
|---------------------------------------|-------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|------------|------------|------------|------------|
| K Strategy and Work Plan Consultation | | CP CAG | | CAG | PI/RR | ST | | | | | | | | |
| L 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

Approvals Key:

CP = Approval of Consultation Paper

ED = Approval of Exposure Draft

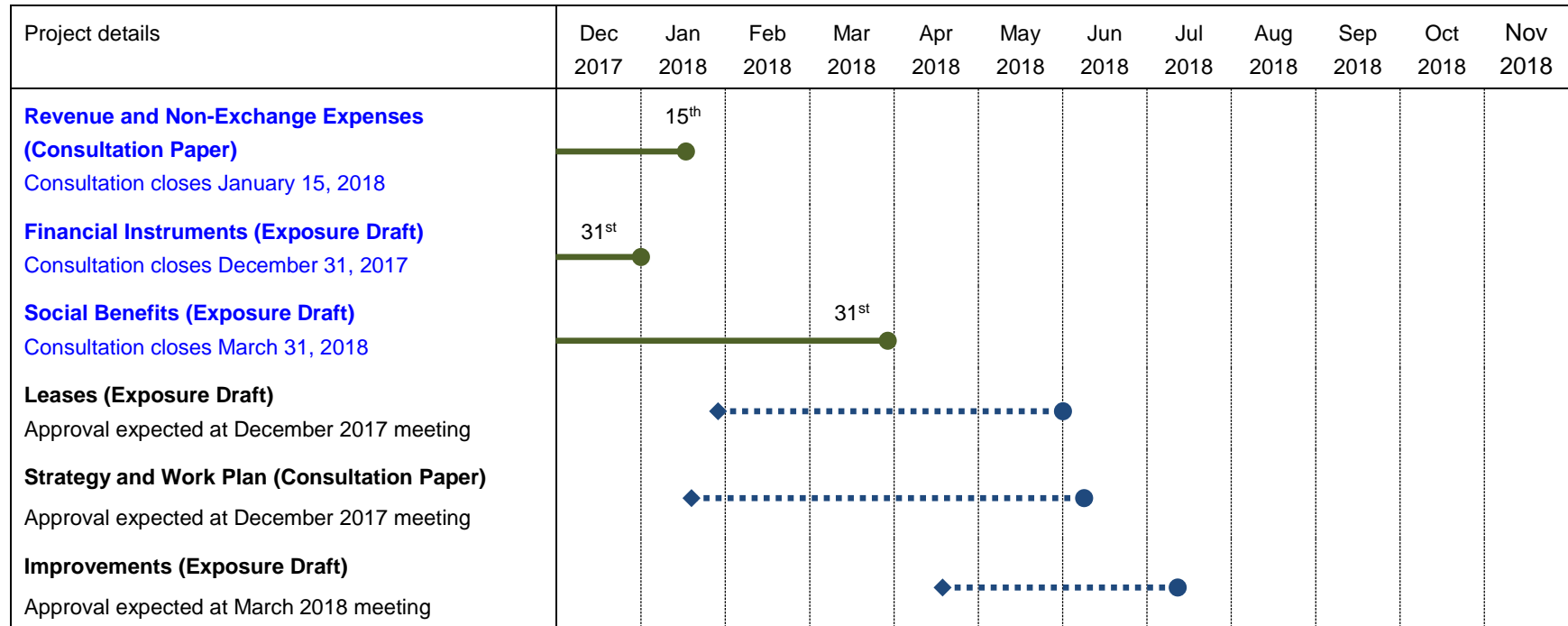
IP = Approval of Final Standard or Amendments to IPSAS(s)

RP = Approval of Final Recommended Practice Guidance

ST = Approval of Final Strategy and Work Plan

December 2017

EXPECTED CONSULTATIONS DURING THE NEXT YEAR



Key:

- ◆—● Consultation document published (dates confirmed)
- ◆.....● Consultation document not yet approved (dates not known, consultation period indicative)

September 2017

PROJECTS COMPLETED SINCE LAST WORK PLAN CONSULTATION

| Project | Date Issued |
|--|--|
| 2017 Handbook of International Public Sector Accounting Pronouncements | <i>To be confirmed</i> |
| <i>Financial Reporting Under the Cash Basis of Accounting</i> (Revised 2017) | November 2017 |
| 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 |

Agenda Item

4.2

June 2017 CAG Discussions on the Public Sector Measurement Project

1. Extracts from the draft minutes of the June 2017 CAG meeting and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

| Representatives' and Observers' Comments | IPSASB Response |
|--|---|
| June 2017 CAG Meeting Comments | |
| <p>IPSASB Principal, Gwenda Jensen, introduced the agenda item and outlined the history of the public sector measurement project and the status of the project so far. Ms. Jensen highlighted the role of the Conceptual Framework in the project, and noted that the expected initial output of the project was a Consultation Paper.</p> <p>CAG members noted strong support for the project and identified some overarching challenges for the IPSASB to consider as follows:</p> <ul style="list-style-type: none"> • Clarity on terminology; • Alignment with GFS should be considered, and where alignment is not possible, differences should be tracked; and • Convergence with IFRS as much as possible, with consideration of IFRS 13, <i>Fair Value Measurement</i>, needed. | |
| <p><i>The initial discussions were focused on consideration of the final output of the project and identifying the most challenging areas of measurement, where additional guidance would be most helpful.</i></p> | |
| <p>1. Mr. Müller-Marqués Berger highlighted the need to understand why this project is important for the public interest, and what measurement issues have been identified, as the starting point for CAG members to discuss.</p> | <p>Comment directed to CAG. <i>IPSASB response not appropriate.</i></p> |

| Representatives' and Observers' Comments | IPSASB Response |
|--|--|
| <p>2. Ms. Cearns was very supportive of the project. She noted that the relationship between measurement and presentation is important. She noted that IPSAS does not have the concept of Other Comprehensive Income (OCI), and commented that some of the measurement issues in IFRS relate to where changes in measurements are presented. Ms. Cearns noted that she is not keen on the use of OCI. However, she did note that it is important to understand what the flows mean. What has changed from one year to the next, and how do you present those changes? Ms. Cearns noted it is important for the measurement project to address the impact on the statement of financial performance as well as on the statement of financial position. She also highlighted the importance of considering whether changes in measurement should be presented gross or net as a key issue for the project. The debate on the importance of the statement of financial performance, and what is the important information on financial performance should be considered in the measurement project.</p> | <p><i>Points noted¹.</i></p> |
| <p>3. Mr. Müller-Marqués Berger agreed that is important to clarify the measurement objective in this project. There may be more than one measurement objective dependent on the transaction, meaning that for some transactions, measurement information related to the statement of financial position is the main objective whereas for other transactions information related to the statement of financial performance may be the key objective. This project should consider these issues conceptually.</p> | <p><i>Points noted.</i></p> |
| <p>4. Ms. Colignon highlighted that different measurement bases should be applied in a consistent way. Her view is that the private sector is different in most cases. Her view is that a decision tree mapping out which measurement basis bases relate to entry values and which to exit values would be helpful in working through the process to determine the appropriate measurement basis. This might be an important task to consider, as there may be some overlap between the measurement techniques.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> |

¹ CAG views have been noted and are influencing IPSASB discussions. However, the IPSASB consideration of project issues is at an early stage, which is why it is generally not possible to report "uptake".

| Representatives' and Observers' Comments | IPSASB Response |
|---|---|
| <p>5. Mr. Stanford noted that the IPSASB had considered OCI during the development of the Conceptual Framework, and made an explicit decision not to include it. From a practical perspective, the issue has been partly resolved in convergence projects, where IFRS items recognized in OCI are included in the statement of net assets/equity in IPSAS.</p> | <p>IPSASB Technical Director comment. <i>IPSASB response not required.</i> In the <i>Revenue</i> project the IPSASB has confirmed the view that it is not appropriate to introduce OCI.</p> |
| <p>6. Ms. Jensen agreed it is important to consider the statement of financial position and statement of financial performance simultaneously. She questioned whether the presentation aspects are outside the scope of this project, but acknowledged the link to measurement and the need to consider the issue.</p> | <p>IPSASB staff comment. <i>IPSASB response not required.</i></p> |
| <p>7. Mr. Matthews noted that clarity is important and a good aim for the project. He also noted the focus of reducing unnecessary differences between IPSAS, IFRS and GFS are good goals for the project. However, he noted that changing individual standards (which would include dealing with how changes in measurement are presented) and the scope of this project may be challenging. He further raised that the issues of treatment of transaction costs and borrowing costs are important issues to consider. Some consideration in the project on how to manage and appropriately consider the many emerging issues will be important for its success.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used. IPSASB is considering GFS measurement during this project.</p> <p><i>Not taken:</i> Comments on project scope.</p> |
| <p>8. Mr. Page noted his support for this important project. He raised another consideration for the project, that being how to deal with the situation when there is incomplete measurement information.</p> | <p><i>Points noted.</i></p> |
| <p>9. Ms. Sanderson noted her support for the project. She noted that the objective of measurement is an important issue. Reliable measurement of assets is crucial, especially when for subsequent measurement. Remeasurements are important for GFS convergence and this project would be a good opportunity to consider this.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB is considering GFS measurement during this project.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| <p>10. Mr. van Schaik noted that accounting for land, and sub soil minerals is a big issue in some countries where there is no record of cost, and therefore the items are unrecognized. Revisions to the IPSASB's Study 14, <i>Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities</i>, might help with these issues.</p> | <p><i>Points noted.</i></p> <p>A revision of Study 14 is relevant in context of Strategy and Work Plan.</p> |
| <p>11. Ms. Kiure-Mssusa noted her support for the project. She raised an important issue from her perspective which related to the confusion between fair value and market value. She noted that in many cases the terms could mean the same thing from a measurement perspective while in others they could be different. It is important that the project not introduce terminology changes for the sake of being different.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB directed staff and the Task Force to maintain consistency of terminology wherever possible.</p> |
| <p>12. Mr. Kraff noted his full support of this very important and useful project. However, he did stress that this is a very challenging and ambitious project. The scale of the undertaking is large, however, it should go ahead as it deals with such important issues. His view is that given the scale and challenges this project brings, it should be managed in a very pragmatic manner. For example, he believes that the project should bring in IFRS 13 in some way, because those principles are well thought out and understood and also applicable in a public sector context. Further, his view is that the output of the project should be to have sound, strong principles. The project should not try to provide too much specific guidance, or go into too much depth with details.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> <p><i>Not taken:</i> Comments on project scope.</p> |
| <p>13. Mr. Viana noted the importance of this project. From his perspective, the measurement of assets where there is not an active market is important. He also supported the link with GFS as important.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB is considering GFS measurement during this project.</p> |
| <p>14. Mr. Boutin noted that there are both differences and similarities with the private sector. His view is that IFRS 13 is a good standard, and it is very important to build off that good work and converge with IFRS as much as possible.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|--|---|
| 15. Ms. Grässle noted that different information can lead to different decisions and behaviors, especially from the perspective of parliamentarians. | <i>Point noted.</i> |
| 16. Ms. Jensen noted that depreciation of tangible assets is important to good management about cost and replacement, as an example of how measurement information impacts decisions and behavior. | IPSASB staff comment. <i>IPSASB response not required.</i> |
| 17. Mr. Müller-Marqués Berger noted that it is important for politicians to make use of financial information. | <i>Point noted.</i> |
| 18. Mr. Blake, an IPSASB member attending the CAG meeting as an observer, noted that it is also quite important that the liability aspect of measurement be considered. | IPSASB member comment. The scope of the project includes liabilities. |
| 19. Mr. Yousef noted that IFRS 13, should be applicable to all types of cash generating assets, with any specific IPSAS guidance focused only on assets held for their service potential or those unique to the public sector. | <i>Points noted.</i> |
| 20. Ms. Cearns noted that in her jurisdiction there is a constant debate on appropriate discount rates. Although there has been no final conclusion on the discussion, this is an opportunity for the IPSASB to add to the discussion. She also noted that there are differences between assets and liabilities and these should be considered separately. | <i>Partial Uptake:</i> IPSASB expected to consider work on discount rates at its December 2017 meeting. <i>Points noted.</i> |
| 21. Mr. van Schaik noted that measurement of assets in the statement of financial position is very important for the parliament to take decisions. | <i>Point noted.</i> |
| 22. Ms. Jensen noted that there is the concern that fair value being an exit value does not work in the public sector and she highlighted two potential options, one being to replace fair value with market value, the second option to continue using fair value where it is appropriate in the public sector. | IPSASB staff comment. <i>IPSASB response not required.</i> |
| 23. Mr. Yousef shared his view that he was not happy with either option, as fair value does not include service potential in his view. | <i>Point noted.</i> |

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| <p>24. Ms. Cearns noted that clarity as well as consistency in terminology is important. If fair value is used, it should be used in a consistent manner as used in IFRS. For other terms meant to convey different concepts than fair value, other terms should be used, such as current value. She further emphasized that IFRS 13 fair value can also be applicable to public sector in certain circumstances. For example if a public sector entity plans to sell assets it is important to know the fair value (exit value) of these assets.</p> | <p><i>Points noted. Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> |
| <p>25. Ms. Sanderson agreed with the need for clarity and consistency with terminology. She clarified that IFRS 13 is applicable to the public sector and is being used in some jurisdictions (notably, in the UK and Australia). The IPSASB project should look to learn and understand from the experiences of those jurisdictions that are using IFRS 13 in the public sector.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used and maintain consistency of terminology wherever possible.</p> |
| <p>26. Mr. Gisby also agreed on the need for clarity and consistency on terminology. He emphasized the need for a full discussion on the measurement bases. Some measurement bases and techniques are equally applicable in both the public and private sectors.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> <p><i>Other points noted.</i></p> |
| <p>27. Ms. Colignon noted agreement with the need for clarity and consistency on terminology. Her view is that fair value and market value should be clearly defined, and guidance on when they are applicable in the public sector provided.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> <p><i>Other points noted.</i></p> |
| <p>28. Ms. Kim agreed that it is important to align public and private sector where possible. Her view is that the term fair value is broader than market value. Her view is that fair value is preferred with additional guidance on how to apply fair value in the individual standards for public sector specific assets.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| <p>29. Mr. Matthews noted that clarity is important. For example, crown corporations/government business enterprises often use IFRS, however, it might make sense in some jurisdictions for them to consider IPSAS. However, if IPSAS is inconsistent with IFRS 13, it could become confusing for preparers as well as users.</p> | <p><i>Partial uptake:</i> IPSASB directed staff and the Task Force to review IPSASs and identify where IFRS 13's approach to fair value could be used.</p> <p><i>Other points noted.</i></p> |
| <p>30. Mr. Carruthers acknowledged the clear steer from the CAG that clarity and consistency of terminology is essential, and that the use of fair value may be appropriate in some cases. Consistency with GFS is also an important consideration. Further, it was noted that discussions with the valuation community on the different measurement bases and techniques is important. Mr. Carruthers also noted that what is meant by current value and depreciated replacement cost must be clear.</p> | <p>IPSASB Chair comment. <i>IPSASB response not required.</i></p> |
| <p>31. Mr. Stanford further elaborated that fair value is important for measuring financial instruments. The IPSASB has already agreed to this in its project to develop ED 62, <i>Financial Instruments</i>. The Conceptual Framework discussion on measurement views depreciated replacement cost as a measurement basis in its own right, rather than as a technique to measure fair value.</p> | <p>IPSASB Director comment. <i>IPSASB response not required.</i></p> |

Matters for CAG Consideration

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

Appendix

Project: Public Sector Measurement

Summary

| | CAG Meeting | IPSASB Meeting |
|-----------------------------------|--|--|
| Development of Consultation Paper | | March 2017 |
| Development of Consultation Paper | June 2017 December 2017 (report back) | June 2017 September 2017 December 2017 |

CAG Discussions: Detailed References

| | |
|--|---|
| IPSASB Staff Discussion with the CAG – Development of Consultation Paper | <u>June 2017 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/Agenda-item-5-combined_0.pdf |
|--|---|

Agenda Item

4.3

June 2017 CAG Discussions on the Public Sector Specific Financial Instruments Project

1. Extracts from the draft minutes of the June 2017 CAG meeting and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| June 2017 CAG Meeting Comments | |
| <p>IPSASB Deputy Director, Ross Smith, introduced the agenda item and outlined the history of the public sector specific financial instrument project and provided a high level overview of the responses to the Consultation Paper issued in July 2016. The overview of responses focused on the scope of the potential next steps the IPSASB might consider in moving the project forward, informed by the range of potential options shared by respondents. Mr. Smith introduced the potential options available for the next phase of the project, and discussed the links with the other financial instrument project (ED 62, <i>Financial Instruments</i>). He then explained the IPSASB's decision to delay the full review of responses until the responses to ED 62, <i>Financial Instruments</i>, are reviewed by the Board in early 2018.</p> <p>The CAG members commented as follows:</p> | |
| <ol style="list-style-type: none"> 1. Mr. Matthews noted that there is no such thing as a small project and highlighted that there are more pressing issues than those covered in the public sector specific financial instruments project. He commented that appropriate guidance already exists in his opinion. However, his view is that if guidance is developed, the IPSASB is right body to address the issue. | <p><i>Point Noted.</i> The IPSASB has agreed to take the approach advocated for in comment #4 below. This approach is expected to minimize IPSASB Staff and Board resources.</p> |
| <ol style="list-style-type: none"> 2. Ms. Colignon noted that there is little appetite to deal with the issue by other standard setters. She acknowledged that IPSASB may be right body, but also that there is already guidance from other organizations available (System of National Accounts, International Investment Position and Balance of Payments Manual, Government Finance Statistics, etc.). | <p><i>Point Noted.</i> The IPSASB has agreed to take the approach advocated for in comment #4 below.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| <p>3. Ms. Cearns agreed that the IPSASB is the right body to develop the guidance contemplated in the project. She noted that other guidance may be available, however, that guidance may not be coming from the same perspective and may present results differently. Her view is that the CP scope should be followed, but should be integrated into the IPSASB's existing financial instruments guidance. She also noted that only the IPSASB has a user focus in mind when developing guidance.</p> | <p><i>Agreed.</i> The IPSASB has agreed to address the issues covered in the Public Sector Specific Financial Instruments CP as additional guidance to the core financial instruments guidance.</p> |
| <p>4. Ms. Cearns noted it is important to articulate the similarities and differences between the issues covered in the public sector specific financial instrument projects, and more common financial instruments. This could help with developing accounting guidance for these very specific transactions, by developing accounting requirements by analogy to more common financial instruments.</p> | <p><i>Agreed.</i> The IPSASB has agreed to take a pragmatic approach to consider the issues covered in the Public Sector Specific Financial Instruments CP (PSSFI CP). As suggested the similarities and differences between the issues covered in the PSSFI CP and more common financial instruments will be followed to develop accounting guidance, by developing requirements by analogy to more common financial instruments. The IPSASB staff believes that appropriate accounting guidance can be developed in a timely manner using this approach.</p> |
| <p>5. Mr. Carruthers, noted that if the responses are reviewed together with the responses to ED 62, <i>Financial Instruments</i>, it would present an opportunity to consider the question of what the real problem is and how guidance can address the problem.</p> | <p><i>Point Noted.</i> The IPSASB agreed at its June 2017 meeting to consider the responses to the Public Sector Specific Financial Instruments CP together with the comments from ED 62.</p> |
| <p>6. Mr. Kraff noted that the IPSASB could choose to do nothing, as existing IPSAS cover financial instruments transactions adequately. However, his view is that developing additional guidance following the scope of the CP, would help to provide more useful guidance to those dealing with these transactions.</p> | <p><i>Agreed.</i> The IPSASB agreed at its June 2017 meeting to follow the approach suggested by the CAG member in comment #4 above.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|---|---|
| <p>7. Ms. Cearns shared her view that a comprehensive Central Bank accounting framework would not be something the IPSASB should undertake. She noted that the dividend payment issue (the central government in most cases receives dividends from the central bank, which can lead to capitalization issues), is no different than any parent and subsidiary dividend issue, so the justification for changes in the Central Bank accounting requirements for dividends based on accounting profit does not seem justifiable.</p> | <p><i>Agreed.</i> The IPSASB's view is consistent with this comment. The IPSASB does not believe it is the right body to undertake development of a comprehensive Central Bank accounting framework. Further, the IPSASB agrees that the dividend distribution issue is a regulatory issue, rather than a problem with the accounting requirements.</p> |
| <p>8. Mr. Matthews questioned if there are any audit disputes, or variance in accounting treatments, related to issues covered in the CP that are known by the IPSASB. Mr. Smith noted that there are differences in the measurement of monetary gold (historical cost, fair value, and statutory rates). There are also differences related to the recognition of a liability for coins in circulation, with some jurisdictions not recognizing a liability while others do.</p> | <p><i>No further action required.</i></p> |
| <p>9. Mr. Gisby noted that if there are divergences in accounting treatments, then there is definitely a role for IPSASB. His view is that the current scope of the CP should be followed.</p> | <p><i>Agreed.</i> The IPSASB agreed at its June 2017 meeting to follow the approach suggested by the CAG member in comment #4 above.</p> |
| <p>10. Ms. Cearns noted that in her view these instruments are not all that unique, or public sector specific. Therefore, her view is that following the guidance set out in the core financial instruments standards should be appropriate.</p> | <p><i>Agreed.</i> In following the approach to develop guidance noted in comment #4 above, consideration will be given as to the nature of the issues being considered and if the core financial instruments standards can be applied.</p> |
| <p>11. Mr. van Schaik noted that the IMF is the body primarily responsible for central banks and that the IMF recommends IFRS. He also noted that central banks and local regulators are responsible for determining which standards should be followed. For example, the European Central Bank (ECB) regulates the national central banks for the members of the European Union. In his view the ECB accounting framework required to be followed by central banks is not a good option, from the user perspective.</p> | <p><i>Point Noted.</i> The IPSASB agreed at its June 2017 meeting to follow the approach suggested by the CAG member in comment #4 above.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
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| <p>12. Mr. Page noted that a public interest issue to consider is the significant growth of central bank balance sheets as a result of the current monetary policy decisions. This growth in balance sheets is an important issue that financial instruments standards help to highlight.</p> | <p><i>Point Noted.</i> The IPSASB agreed at its June 2017 meeting to follow the approach suggested by the CAG member in comment #4 above. The IPSASB staff notes that the core financial instrument standards in IPSAS require the recognition and measurement of all financial assets and liabilities on a gross basis, and therefore provide the information to understand the growth in the balance sheets of central banks.</p> |
| <p>13. Mr. Stanford commented on the likelihood of the IASB doing work in this space, given that many central banks follow IFRS or national standards based on IFRS. He noted that IPSASB staff have discussed this project with the IASB, and that one or two members of the IASB had interest in this space. However, there appeared to be very little support for the IASB to take this onto their agenda at this time.</p> | <p><i>Point Noted.</i> The IPSASB agreed at its June 2017 meeting to follow the approach suggested by the CAG member in comment #4 above.</p> |
| <p>14. Mr. Smith thanked the CAG for the useful feedback. In particular, it was noted that the IPSASB should look to develop guidance in this space, but should look to minimize the resources expended by linking the requirements to the current financial instruments standards. He noted that a pragmatic approach, analyzing the issues and developing guidance by analogy to more common financial instruments was advocated by CAG members as being in the public interest.</p> | <p><i>No further action required.</i></p> |

Matters for CAG Consideration

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

Appendix

Project: Public Sector Specific Financial Instruments

Summary

| | CAG Meeting | IPSASB Meeting |
|---|--|-----------------------|
| Review of Responses to of Consultation Paper, <i>Public Sector Specific Financial Instruments</i> | June 2017 December 2017 (report back) | June 2017 |

CAG Discussions: Detailed References

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| IPSASB Staff Discussion with the CAG – Review of Responses | <u>June 2017 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-6-Public-Sector-Financial-Instruments-CAG-Paper_Final.pdf |
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Agenda Item

4.4

June 2017 CAG Discussions on the Social Benefits Project

1. Extracts from the draft minutes of the June 2017 CAG meeting and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

| Representatives' and Observers' Comments | IPSASB Response |
|--|--|
| June 2017 CAG Meeting Comments | |
| IPSASB Principal Paul Mason introduced the agenda item, noting that this was the second time the CAG had discussed this project. Mr. Mason outlined the two areas where the IPSASB was seeking feedback from the CAG – concerns which might affect recognition under the obligating event approach; and the approach the IPSASB was proposing to take with the insurance approach. | |
| <p><i>Obligating event approach</i></p> <p><i>Concerns 1 and 2: Reporting Long-term Liabilities but not the Related Revenue does not produce Useful Information; and Disclosure in the Notes or a Fiscal Sustainability Report is More Appropriate than Recognizing Liabilities in the Statement of Financial Position</i></p> <p>Mr. Mason introduced the discussion on the obligating event approach, noting that concerns 1 and 2 were linked.</p> <p>The CAG members commented as follows:</p> | |
| <p>1. Mr. Gisby commented that for him, the fact that benefits are not funded is the public interest issue. How these will be funded in the future is the key question for the users. Relegation to disclosure in the notes will not meet users' needs, and therefore benefits should be recognized in the balance sheet.</p> | <p><i>Partial Uptake.</i> ED 63 recognizes a liability for social benefits in the balance sheet. However, the liability is for the next benefit only, as the IPSASB concluded amounts beyond this point did not meet the definition of a liability.</p> |
| <p>2. Ms. Cearns commented that the reason some people don't think an entity should recognize a liability is because they don't think there is an obligation. If there is a present obligation, it should be recognized.</p> | <p><i>Agreed.</i> The IPSASB considered when an obligating event occurs for a social benefit, and concluded that this is the satisfaction, by the beneficiary, of all eligibility criteria for the next benefit, which includes being alive. The requirements of ED 63 reflect this recognition point. Not all IPSASB members agreed that being alive is an eligibility criterion. These members would recognize a liability earlier for some social benefits. This is reflected in an Alternative View in ED 63</p> |

| Representatives' and Observers' Comments | IPSASB Response |
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| 3. Ms. Cearns also commented that a separate fiscal sustainability report would provide helpful information in those cases where a government has a commitment but not an obligation. | <i>Partial Uptake.</i> ED 63 encourages, but does not require, the publication of a separate fiscal sustainability report. SMC 6 seeks respondents' views on whether the IPSASB should develop mandatory requirements in this area. |
| 4. Ms. Colignon commented that the public interest issue is that there is a tension between the accounting framework and the information that is useful for users. There might be a difference between the two. If there is an obligation, it should be reported on the balance sheet. Whether there is an obligation will depend on the structure and organization of the public sector in the different jurisdictions. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 5. Ms. Colignon noted that the Conceptual Framework does not link assets and liabilities, and that any liability should be recognized independently of any funding considerations. | <i>Agreed.</i> ED 63 recognizes a liability independently of any funding considerations. |
| 6. Mr. Matthews commented that there was a risk of being too intellectually pure, and losing understandability. There is also the practicality issue to consider. Where there is an obligation, it should be recognized even if the funding is not set up. Note disclosure does not take the place of recognition. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 7. Mr. Matthews also commented that disclosure cannot take the place of good fiscal sustainability reporting. Financial statements can never provide some of the information that a good sustainability report will. | <i>Partial Uptake.</i> See IPSASB response to comment #3 . |
| 8. Ms. Sanderson commented that if something is a liability, it is a liability and should be on the balance sheet. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 9. Ms. Sanderson also commented that the main question is "what is the meaning of the number produced and what will it tell the reader?" The place for this is in fiscal sustainability reporting, as social benefits are policy positions and these are best looked at holistically. | <i>Partial Uptake.</i> The Basis for Conclusions in ED 63 discusses the importance of fiscal sustainability reporting and the inability of financial statements to address all of users' needs in respect of social benefits. See also IPSASB response to comment #3 . |

| Representatives' and Observers' Comments | IPSASB Response |
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| <p>10. Mr. Yousef said that the issue was how you ask the question. Clearly a liability needs to be booked, but the question is whether this is an actual liability. If an entity doesn't have the funding, then benefits will be changed if they aren't affordable. It is better to report these items in the notes, as benefits can be changed. It is not meaningful to have all the commitments on the balance sheet when these cannot be funded. Mr. Yousef considered benefits to be similar to contingent liabilities.</p> | <p><i>Partial Uptake.</i> ED 63 recognizes a liability independently of any funding considerations. See also IPSASB response to comment #2.</p> |
| <p>11. Ms. Kiure-Mssusa agreed with Mr. Yousef. She commented that it is an obligation to the extent that an outflow is probable. In many cases this is only for the amount that is in the budget for the year, and therefore the rest should be treated as a contingent liability.</p> | <p><i>Partial Uptake.</i> ED 63 recognizes a liability independently of any funding considerations. See also IPSASB response to comment #2.</p> |
| <p>12. Ms. Cearns commented that funding is a red herring because things get changed for a number of reasons politically. There needs to be a principle that tells preparers when to recognize a benefit. The ability of governments to change their minds should not be a consideration when determining where to draw the line.</p> | <p><i>Agreed.</i> See IPSASB response to comment #2.</p> |
| <p>13. Mr. Page questioned whether we want accounting standards to incentivize behavior. He considered that fiscal sustainability reporting is more important and that fiscal sustainability analysis would lead to better decision making by governments.</p> | <p><i>Point Noted.</i> See IPSASB response to comment #3.</p> |
| <p>14. Mr. Kraff noted that this is a political discussion, and drew the parallel with the introduction of employee benefits accounting in the European Commission. This led to negative net assets, with notes explaining that the payments would be funded from future budgets. The Commission did not relegate the benefits to the notes, and Mr. Kraff noted that the Conceptual Framework states that disclosure is not an adequate substitute for recognition.</p> | <p><i>Agreed.</i> See IPSASB response to comment #2. ED 63 requires entities to provide additional information to supplement the amounts recognized. It does not treat disclosure as a substitute for recognition.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
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| 15. Mr. Kraff discussed the issue of political decisions and sovereign power, noting that the Conceptual Framework states that sovereign power is not a reason for not recognizing an obligation that meets the definition of a liability. He noted that there is a process before a political commitment becomes an obligation or liability, and that if that process hasn't happened, then the commitment should be disclosed in the notes. | <i>Agreed.</i> The IPSASB agreed that sovereign power is not a reason for not recognizing an obligation that meets the definition of a liability. See also IPSASB response to comment #2 . |
| 16. Mr. Matthews agreed that there needs to be a principle, but not just for social benefits. The principle should cover any promises a government makes. Mr. Matthews considered that accounting for expenses needs to be done in isolation, and he expressed concerns regarding arguments elsewhere that early intervention would give rise to future benefits, and so an asset should be recognized. | <i>Agreed.</i> ED 63 recognizes a liability independently of any funding considerations. The obligating event approach applies the general recognition principles in the Conceptual Framework to social benefits; these principles apply to all transactions. See also IPSASB response to comment #2 . |
| 17. Mr. Viana agreed that if eligibility criteria have been met, an entity should recognize the liability. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 18. Mr. Viana also commented that sovereign powers have limits, noting that in Portugal, the courts had prevented the government from reducing social benefit payments. | <i>Agreed.</i> See IPSASB response to comment #15 . |
| 19. Mr. Mason summarized the main points that staff would take away from these discussions. These were that a liability should always be recognized on the balance sheet, but that the question was when does the obligation arise; and the importance of fiscal sustainability reporting. | <i>Point Noted.</i> |
| <p><i>Concerns 3, 4 and 5: Inconsistency between the Costs of Services Recognized during the Year and the Services Provided during the Year; No Government can Bind its Successor, and any Social Benefit Obligation can be Changed by the Government in Power; and Measurement Uncertainty</i></p> <p>Mr. Mason introduced the discussion on the remaining concerns under the obligating event approach.</p> <p>The CAG members commented as follows:</p> | |
| 20. Ms. Cearns commented that IPSAS are accrual, not cash accounting, so the liabilities recognized and the benefits paid should be disclosed separately. | <i>Agreed.</i> ED 63 requires an entity to disclose both the liabilities recognized in a year and liabilities settled (benefits paid) in a year. |

| Representatives' and Observers' Comments | IPSASB Response |
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| 21. Ms. Cearns commented that if there is an obligation, an entity should book it. Sovereign power is not enough to prevent recognition. | <i>Agreed.</i> See IPSASB response to comment #15 . |
| 22. Ms. Cearns did not agree that measurement uncertainty provides sufficient reason not to book a liability. The measurement (estimation) of liabilities may be complex, and involve a lot of information, but the calculation is likely to be achievable. | <i>Partial Uptake.</i> The IPSASB agreed that measurement uncertainty does not provide a sufficient reason not to book a liability. However, the recognition point included in ED 63 is unlikely to give rise to any measurement uncertainty. |
| 23. Mr. Carruthers (IPSASB Chair) asked what was meant by the inconsistency between the costs of services recognized during the year and the services provided during the year. Mr. Mason clarified that this issue had been raised by a respondent in the USA, and reflected the way the USA managed social benefits. Mr. Dacey, an IPSASB member attending the CAG meeting as an observer, confirmed that the USA provided sustainability information for social benefits as audited statements. | <i>Point Noted.</i> Responses from Mr. Mason and Mr. Dacey addressed the issue in full. |
| 24. Ms. Cearns commented that the question is whether you have an obligation or not, and how far an approach primarily designed for contractual situations can be applied to statutory obligations. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 25. Mr. Müller-Marqués Berger commented that this is not an either/or question. If there is a liability it needs to be recognized, but users may also be interested in how this developed over time, and this could also be disclosed. | <i>Partial Uptake.</i> ED 63 requires an entity to disclose projected future cash flows to show how a social benefit might develop. This disclosure is limited to five years. |
| 26. Ms. Sanderson commented that as a user, she was interested in what was paid during the year and what isn't paid during the year. The key factor is the obligating event. Contractual situations are very clear. But for non-contractual situations, the question is when there is a present obligation. There is a difference between the two, and an obligation may arise later in non-contractual circumstances. | <i>Agreed.</i> See IPSASB response to comment #2 . |

| Representatives' and Observers' Comments | IPSASB Response |
|---|--|
| 27. Mr. Page commented that economists love sustainability work, and that they see it as a debt issue. Debt sustainability analysis allows long term views to be considered and allows sustainability analysis to be undertaken. This can address a number of issues such as demographic changes and intergenerational equity. | <i>Partial Uptake.</i> See IPSASB response to comment #3 . |
| 28. Mr. Yousef asked what should happen if we agree that an obligation needs to be recognized, but there is a debt ceiling and recognizing the liability will breach that debt ceiling? Mr. Mason commented that this may depend on the jurisdiction. Mr. Stanford (IPSASB Technical Director) commented that there would be a question as to which information best meets users' needs. He noted that this issue also applied to fiscal sustainability reporting more generally. | <i>Point Noted.</i> Responses from Mr. Mason and Mr. Stanford addressed the issue. See also comment #32 . |
| 29. Ms. Sanderson questioned whether consideration had been given to the annual appropriation and what has been approved? | <i>Point Noted.</i> Because ED 63 limits recognition to the next benefit, consideration to the annual appropriation is not required. |
| 30. Ms. Sanderson also expressed concern that if threshold eligibility criteria was adopted, this could have implications for health and education services. Mr. Stanford commented that this was considered in developing the Conceptual Framework. | <i>Agreed.</i> ED 63 does not propose adopting the threshold eligibility criteria, although this would be included under the Alternative View. |
| 31. Ms. Cearns commented that the issue is that it is not clear what the present obligation is. | <i>Agreed.</i> See IPSASB response to comment #2 . |
| 32. Ms. Cearns commented that in regard to the debt ceilings, similar issues arise in the private sector, for example with debt covenants. These are often addressed by defining what is covered more narrowly. The accounting should not be driving policy. | <i>Point Noted.</i> |
| 33. Mr. Mason commented that the key issue is again whether there is a present obligation. | <i>Point Noted.</i> |
| <p><i>Insurance Approach</i></p> <p>Mr. Mason introduced the discussion on the insurance approach, noting that the IPSASB had specifically requested the views of CAG members on a number of issues.</p> <p>The CAG members commented as follows:</p> | |

| Representatives' and Observers' Comments | IPSASB Response |
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| <p>34. Mr. van Schaik questioned what was meant by “intended to be fully funded”, and commented that drawing a sensible line might be difficult.</p> | <p><i>Partial Uptake.</i> ED 63 includes guidance on when a social benefit scheme can be said to be fully funded. Intention is covered by reference to the legislation and regulations governing the scheme. The IPSASB decided not to limit the use of the approach to those social benefit schemes that were fully funded, as an unexpected loss, which could be recovered by future contribution increases, might prevent the use of the insurance approach.</p> |
| <p>35. Ms. Cearns asked if the right test was being applied and whether all the criteria in IFRS 17 were being applied. If a scheme ceases to meet the criteria, then an entity should stop using insurance accounting. Ms. Cearns questioned whether the use of intention was appropriate.</p> | <p><i>Partial Uptake.</i> ED 63 requires an entity applying the insurance approach to apply IFRS 17 (or equivalent national standards) in full. However, because social benefits arise from legislation not contracts, some requirements have to be applied by analogy.</p> |
| <p>36. Mr. Page questioned whether there were social programs that operated as insurance schemes. Ms. Ryan, IPSASB Deputy Chair, attending the CAG meeting as an observer, outlined the position regarding accident insurance schemes in New Zealand, which are managed as insurance schemes. She responded to additional questions from CAG members on how the schemes operate.</p> | <p><i>Point Noted.</i> Response from Ms. Ryan addressed the issue in full.</p> |
| <p>37. Mr. Mason concluded the discussion on the insurance approach by commenting that the insurance approach was only intended to be used in appropriate circumstances, and that the IPSASB had decided not to deviate from IFRS 17.</p> | <p><i>Point Noted.</i></p> |

Matters for CAG Consideration

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

Appendix

Project: Social Benefits

Summary

| | CAG Meeting | IPSASB Meeting |
|--|--|--|
| Discussion of Feedback from Consultation Paper and Development of the Exposure Draft | June 2016 December 2016 (report back) | March 2016 June 2016 September 2016 December 2016 March 2017 |
| Development of Exposure Draft | June 2017 December 2017 (report back) | June 2017 September 2017 |
| Issue of Exposure Draft 63, <i>Social Benefits</i> | | October 2017 |

CAG Discussions: Detailed References

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|---|--|
| IPSASB Staff Discussion with the CAG - Feedback from Consultation Paper and Development of the Exposure Draft | <u>June 2016 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/CAG-Item-5-Social-Benefits.pdf <u>June 2017 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/CAG-Item-7-Social-Benefits.pdf |
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Agenda Item 4.5

June 2017 CAG Discussions on the Amendments to the Cash Basis IPSAS Project

1. Extracts from the draft minutes of the June 2017 CAG meeting and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

| Representatives' and Observers' Comments | IPSASB Response |
|--|-----------------|
| June 2017 CAG Meeting Comments | |
| <p>IPSASB Technical Director, John Stanford and Manager, Standards Development & Technical Projects, Joanna Spencer introduced the agenda item and gave a presentation outlining some key public interest issues related to the project.</p> <p>ED 61, <i>Amendments to Financial Reporting under the Cash Basis of Accounting</i>, was issued in February 2016. ED 61 proposed narrow scope amendments to move some portions of Part 1 (requirements) of the <i>Cash Basis IPSAS</i> to Part 2 (encouraged additional disclosures), as follows:</p> <ul style="list-style-type: none"> • Requirement to Prepare Consolidated Financial Statements for all Controlled Entities; • Requirement to Disclose External Assistance Information; and • Requirement to Disclose Third Party Payments Information. <p>The CAG was asked to:</p> <ul style="list-style-type: none"> • Consider a high-level analysis of ED 61 responses; and • Provide CAG members' views on the following public interest issues arising from ED 61 responses: <ul style="list-style-type: none"> ○ Is the public interest better served by the <i>Cash Basis IPSAS</i> having less requirements and more encouraged disclosures? ○ Is the public interest better served by the IPSASB focusing entirely on developing accrual IPSAS after this limited scope project? ○ Is the public interest better served by a <i>Cash Basis IPSAS</i> that is easier to adopt and implement to help constituents build capacity to allow progression towards accrual IPSAS? <p><i>Is the public interest better served by the Cash Basis IPSAS having less requirements and more encouraged disclosures?</i></p> | |

| Representatives' and Observers' Comments | IPSASB Response |
|--|--|
| <p>1. Ms. Cearns questioned whether lowering the mandatory requirements of the <i>Cash Basis IPSAS</i> was helpful in building capacity for the move to accrual IPSAS. She expressed concern that by making the <i>Cash Basis IPSAS</i> easier to adopt, it might create a disincentive to take the step up to accrual IPSAS. Mr. Müller-Marqués Berger also agreed that lowering the requirements for the <i>Cash Basis IPSAS</i> may make them less useful for building capacity and moving to accrual IPSAS.</p> | <p><i>Agreed. Point Noted.</i> The IPSASB undertook the development of ED 61 to remove barriers to implementation of the <i>Cash Basis IPSAS</i>. The IPSASB considers the <i>Cash Basis IPSAS</i> is a stepping stone to the adoption of accrual IPSAS in some jurisdictions and making the standards more accessible is a positive step to the goal of accruals. The amendments specifically address concerns raised by constituents as barriers to adoption for those jurisdictions with resource and capacity constraints.</p> |
| <p>2. Mr. van Schaik noted concern that some may only be looking to obtain the label of “IPSAS” adopter by adopting the <i>Cash Basis IPSAS</i> and have little motivation to move to accrual accounting. His view was that if the changes proposed in ED 61 move ahead, they should not be call “IPSAS”, but instead should be a set of transitional financial statement statements. A further concern was noted with the proposal, that making consolidation optional provides scope to manipulate the performance of governments. For example, if cash-based financial statements are not consolidated, governments could structure cash inflows and outflows in order to get a specific outcome in the cash-based statements. This raises a key public interest concern related to comparability and questions completeness of cash reporting.</p> | <p><i>Point Noted. Not taken.</i> Although not utilizing accrual accounting the <i>Cash Basis IPSAS</i> is nevertheless an IPSAS and therefore financial statements that comply with the mandatory requirements of the <i>Cash Basis IPSAS</i> can claim compliance with this IPSAS. However, because only a statement of cash receipts and payments and accompanying accounting policies and notes are required, readers would recognized that accrual accounting has not been applied and therefore the financial statements are not in compliance with the full suite of accrual IPSAS.</p> <p>Regarding the concerns over consolidation, consolidation was identified as a major barrier to adoption of the <i>Cash Basis IPSAS</i> and because the IPSASB considers the <i>Cash Basis IPSAS</i> as a stepping stone to the adoption of accrual IPSAS in some jurisdictions and making the standards more accessible is a positive step to the goal of accruals.</p> |

| Representatives' and Observers' Comments | IPSASB Response |
|--|---|
| 3. Mr. Müller-Marqués Berger noted that the <i>Cash Basis IPSAS</i> already use terminology to distinguish such statements from accrual IPSAS. | Agreed. |
| 4. Mr. Yousef noted that the purpose of <i>Cash Basis IPSAS</i> is to help move people to the accrual IPSAS. He noted that accruals are the end of the process, but questioned if there should be any express limitation on the amount of time an entity can remain on the <i>Cash Basis IPSAS</i> . For example, in his jurisdiction all entities are on accrual IPSAS except for one entity, the Treasury, which is on the <i>Cash Basis IPSAS</i> . | Point noted. Because the IPSASB views the <i>Cash Basis IPSAS</i> as a stepping stone to accruals, putting a timeline on moving to accruals may be a deterrent to jurisdictions moving to the <i>Cash Basis IPSAS</i> . |
| 5. Mr. Müller-Marqués Berger agreed that even if the IPSASB stresses that the <i>Cash Basis IPSAS</i> is a stepping stone to the accrual IPSAS, there should not be an explicit expiry period, or time limit to how long entities can stay on the <i>Cash Basis IPSAS</i> . | Agreed. |
| 6. Ms. Kiure-Mssusa noted that the changes might make it more challenging for countries to migrate to accruals. She noted that many parts of the accrual IPSAS are challenging (disclosures, inter-entity eliminations in consolidation). She noted that reducing the <i>Cash Basis IPSAS</i> mandatory requirements might make that move to accrual more challenging in the long run. | Point noted. But just as the <i>Cash Basis IPSAS</i> is a stepping stone to accruals accounting, the <i>Cash Basis IPSAS</i> can be implemented in stages, Part 1 is mandatory and when entities are able they can implement the encouragements in Part 2 thus preparing themselves thoroughly for the transition to accruals. |

| Representatives' and Observers' Comments | IPSASB Response |
|---|-----------------------|
| <p>7. Mr. Boutin noted he understood that the proposed changes are based on analysis and previous feedback from those using the standards. In his view the proposed changes are appropriate and appear to be supported by respondents to ED 61. Mr. Boutin stressed that we need to keep in mind that some environments have considerable capacity constraints and that implementation of the <i>Cash Basis IPSAS</i> is an improvement for those jurisdiction and that complying with international independent accounting standards can be very beneficial. Further, it was noted that it is important to be realistic about the time line for developing economies to adopt and implement accrual IPSAS. If the <i>Cash Basis IPSAS</i> is a useful tool on that journey, it should be available and consideration should be given to different circumstances and different timelines.</p> | <p><i>Agreed.</i></p> |
| <p>8. On the second issue (whether the public interest is better served by the IPSASB focusing entirely on developing accrual IPSAS), Mr. Boutin disagreed. He considered that preparers need confidence in standards and the standard setter, which would be lost if the IPSASB abandoned the <i>Cash Basis IPSAS</i>. Mr. Boutin also noted that there was a need to be realistic about time lines, which could be very long for some jurisdictions to reach full accrual accounting.</p> | <p><i>Agreed.</i></p> |
| <p>9. Ms. Kim noted agreement with the points of Mr. Boutin. Her view is that those using the <i>Cash Basis IPSAS</i> have different needs and require different support than those considering accrual IPSAS adoption. She further noted that it is good to have governments considering the move to the Cash Basis as well as the move to accrual Basis IPSAS, so that the needs and requirements are planned in advance. The Asian Development Bank completed a survey and noted that the journey usually involves adoption of cash standards, migration to modified cash standards and then finally to accruals. Therefore moving some of the barriers to the <i>Cash Basis IPSAS</i> adoption, from mandatory requirements to encouraged requirements, is useful, because it provides flexibility to adopters on their journey to accrual standards.</p> | <p><i>Agreed.</i></p> |

| Representatives' and Observers' Comments | IPSASB Response |
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| 10. Mr. Yousef noted that in his jurisdiction the Treasury prepare <i>Cash Basis IPSAS</i> , other information is compiled outside the financial statements, such as asset registers. | <i>Point noted.</i> |
| 11. Mr. Carruthers noted that there are many different paths to reach accrual IPSAS. The <i>Cash Basis IPSAS</i> can be seen as a starting point of that journey, but the IPSASB is clear the endpoint should be the accrual IPSAS. He noted that it was interesting that the debate so far had been only on the consolidation requirements, with no discussion on making the requirements on external assistance and third party payments optional. | <i>Agreed.</i> |
| 12. Mr. Müller-Marqués Berger asked CAG members if there are any views on external assistance and third party payments. Members supported the move of these items and had no points to raise. | <i>Point noted.</i> |
| 13. Mr. Müller-Marqués Berger asked for CAG views on the IPSASB proposal that there should be no further work planned for the <i>Cash Basis IPSAS</i> . | IPSASB response not required. |
| 14. Ms. Sanderson noted it is difficult to know what the future will bring at this time. However, with the IPSASB's finite resources and the full work program for the next few years, it seems appropriate to limit the time and effort planned for the <i>Cash Basis IPSAS</i> at present. It might be appropriate to monitor whether more changes might be needed at a point in the future. | <i>Point noted.</i> Agreed no further work in the short-term is foreseen. |
| 15. Ms. Cearns agreed with Ms. Sanderson. However, she noted that there was no need to expend effort actively monitoring the <i>Cash Basis IPSAS</i> and issues related to it. If problems are identified or constituents share concerns, the IPSASB should consider at that point what was required. It is hard to envision what problems may emerge. Consequently, it is better to focus on accrual IPSAS and address future work on the <i>Cash Basis IPSAS</i> on an exception (problem identified) basis only. | <i>Point noted.</i> Agreed no further work in the short-term is foreseen. |
| 16. Mr. Yousef agreed with both Ms. Sanderson and Ms. Cearns, but noted that he would phrase the future monitoring of the need for amendments to the <i>Cash Basis IPSAS</i> in a more positive light. | <i>Point noted.</i> |

| Representatives' and Observers' Comments | IPSASB Response |
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| 17. Mr. van Schaik would not put monitoring of the <i>Cash Basis IPSAS</i> completely on ice. He noted that there could be simple improvements which could be considered (improvements to the structure of the financial statements, adding requirements to report on public debt), which could be very useful and take a small amount of resources in his view. | <i>Point noted.</i> |
| 18. Ms. Kim agreed with the points made. However she cautioned against a broad statement that if something arises, the IPSASB would consider it, because in her view the IPSASB's resources should go into continued development of accrual IPSAS standards. However, maybe in 3-5 years in the future further work on the <i>Cash Basis IPSAS</i> should be considered. | <i>Point noted.</i> |

Matters for CAG Consideration

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

Appendix

Project: Amendments to Financial Reporting under the Cash Basis of Accounting

Summary

| | CAG Meeting | IPSASB Meeting |
|--|--|--|
| Development of Exposure Draft | | March 2015 June 2015 September 2015 December 2015 |
| Issue of Exposure Draft | | February 2016 |
| Discussion of feedback and finalization of Revised <i>Cash Basis IPSAS</i> | June 2017 December 2017 (report back) | March 2017 September 2017 |
| Issue of Revised <i>Cash Basis IPSAS</i> | | November 2017 |

CAG Discussions: Detailed References

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| IPSASB Staff Discussion with the CAG – Finalization of Revised <i>Cash Basis IPSAS</i> | <u>June 2017 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-8-Cash-Basis-IPSAS-Final.pdf |
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