

Meeting: IPSASB Consultative Advisory Group
Meeting Location: Abu Dhabi, United Arab Emirates
Meeting Date: December 9, 2019

Agenda Item 5

For:
☐ Approval
☒ Discussion
☒ Information

TECHNICAL DIRECTOR'S REPORT ON THE WORK PROGRAM

Objective of Agenda Item

1. To receive the Technical Director's report on the work program.
2. To note the work program and key changes since the June 2019 meeting.
3. To note the IPSASB report backs on previously discussed technical projects.

Material(s) Presented

Agenda Item 5.1	IPSASB Work Program: December 2019
Agenda Item 5.2	Capital Grants: Revenue and Expenses—Report Back
Agenda Item 5.3	Natural Resources—Report Back
Agenda Item 5.4	Heritage—Report Back

Annual Review of the Work Program

4. This is the third annual in-depth-review of the work program. The in-depth review takes place at the last IPSASB meeting of the year in order to ensure that the work program is realistic.
5. The Technical Director, Chair, Deputy Director and staff have reviewed the work program, taking into account developments and their impact, including the issues expected to arise in each project. Where projects are dependent on decisions in other projects, the scheduling of projects reflects those dependencies.
6. With the exception of Leases the work program assumes that IPSASB proposals and preliminary views (PVs) in consultation papers and proposals in exposure drafts (EDs) are generally supported by respondents. This is a “best case” scenario and assumes that there will be no re-exposure of proposals. Unless the IPSASB decides to retain IPSAS 13, *Leases*, it is highly probable that the Leases project will require one or more further EDs. The Leases project is discussed in more detail in paragraph 15. For major projects, such as Revenue and Measurement, the analysis assumes that there are four meetings from the first review of responses to approval of a final pronouncement.
7. The work program assumes that there is a full staff complement. Currently there are eight technical staff supported by the Head of Administration and Events and an Administrative Assistant and consultancy support provided by a Senior Adviser. The current Technical Director will move to half

time working on April 1st, 2020 after stepping down from his current role. One of the Principals will be on paternity leave for February and much of March. This has been factored into the projections for the Measurement project. IPSASB is also actively recruiting for a further Manager, Standards Development and Technical Projects. Any delays in recruitment or staffing changes are likely to result in delays to one or more projects.

8. Agenda items are scheduled for all IPSASB meetings unless the meeting is during a consultation period. It may be necessary to reduce the number of projects discussed at some meetings or to modify time allocations in order to manage both the agenda and staff resources.

Summary of key changes agreed since the June 2019 Meeting

9. ED°69, *Amendments to IPSAS 41, Financial Instruments*, related to the Public Sector Specific Financial Instruments project was approved, ahead of the projected approval date of September 2019. The June Technical Director's Report referred to this possibility.
10. The June Technical Director's Report also indicated that the timelines for the two streams` of the Revenue project would be reassessed at the end of the IPSASB's June meeting. Approval of draft ED°70, *Revenue with Performance Obligations* and ED°71, *Revenue without Performance Obligations* was put back to December 2019 in order to allow for development of public sector examples and, for ED 71, to allow for further Board discussion on the approach to transactions arising from binding arrangements with present obligations but not performance obligations, capital transfers and measurement at initial recognition and subsequently. The related ED 72, *Transfer Expenses*, which adopts the public sector performance obligation approach (PSPOA) has also been put back to December. As previously noted EDs 70, 71 and 72 need to be issued together to allow respondents to understand the overall impact of the proposed changes.
11. Application Guidance on Collective and Individual Services was approved in September 2019, rather than December 2019. This provides capacity for prioritization of EDs 70—72 at the December meeting.

In-Depth Review of Individual Projects

12. The Chair and the Technical Director, along with staff, have reviewed the work program for the individual projects. The following section evaluates each of the projects. Following an initial review on Day One the IPSASB will undertake a further detailed review of these projects on Day Four at its December 2019 meeting.

Public Sector Financial Instruments

13. ED 69, was issued in August 2019 with a consultation period ending on December 31st, 2019. The initial review of responses is currently scheduled for March 2020 with approval scheduled for September. Subject to issues raised by respondents at consultation this timeline is still viable.

Leases

14. Recent work programs presented two potential approaches dependent on whether the IPSASB continues with the dual 'right of use' model proposed in ED 64 or decides to develop an alternative approach. Under the former scenario a final pronouncement was projected for approval in March 2020, while under the latter scenario a second ED was projected for approval in March 2020. These projections are clearly no longer realistic. Even if the IPSASB were to endorse the dual 'right of use' model it is probable that there would be significant modifications necessitating a further ED. The work

program appended to this report notes that a discussion of options including retention of IPSAS 13, *Leases* will take place at this meeting. When a decision is taken on direction a time line will be determined.

Revenue and Transfer Expenses

15. ED 70, *Revenue with Performance Obligations*, ED 71, *Revenue with Performance Obligations* and ED 72, *Transfer Expenses* are scheduled for approval at this meeting. Final pronouncements are projected for September 2021.

Measurement

16. The Consultation Paper, *Measurement*, which included an illustrative ED was issued on April 30, 2019 with a consultation period ending on September 30, 2019. The first high level review of responses will take place at the December 2019 meeting. A formal ED is projected for September 2020 and a final pronouncement for December 2021.

Infrastructure Assets and Heritage

17. Time allocations for both these projects at the December 2019 meeting have been restricted in order to prioritize the review and approval of EDs 70—72 (see above). Consequently, approval of an ED has been put back to September 2020 with a final pronouncement scheduled for December 2021.

Natural Resources and Limited Scope Review of the Conceptual Framework

18. Project briefs for these two committed projects will be considered at the March 2020 meeting when timelines will be agreed. The Consultative Advisory Group considered Natural Resources at its June 2019 meeting and is considering the Limited Scope Review of the Conceptual Framework at this meeting.

Improvements

19. Improvements are issued annually. Improvements to IPSAS 2019 is up for approval at the December 2019 IPSASB meeting. An ED for the next set of annual Improvements is scheduled for approval in June 2020.

Mid-Term Work Period Consultation

20. The IPSASB has committed to a mid-period work program consultation in 2021. Following a discussion with the CAG in June 2020 this will be approved in December 2020 and issued in early 2021.

Questions for the CAG

21. The CAG is asked to note:
 - (a) The changes to the work program;
 - (b) The proposed changes to the work program being considered as part of the in-depth review; and
 - (c) The report backs on the projects;and to provide comments to the IPSASB on any of these issues.

IPSASB WORK PROGRAM: DECEMBER 2019

Project/ Initiative	Links	Dec 2019 (CAG)	Mar 2020	Jun 2020 (CAG)	Sep 2020	Dec 2020 (CAG)	Mar 2021	Jun 2021 (CAG)	Sep 2021	Dec 2021 (CAG)
A Public Sector Specific Financial Instruments	C, D	RR	RR	RR/DI CAG	IP					
B Leases ¹	C	DI*	DI							
C Revenue										
(i) Revenue with Performance Obligations	A, B, D, H	ED CAG				RR/DI CAG	RR/DI	RR/DI	IP	
(ii) Revenue without Performance Obligations [IPSAS 23 update]		ED CAG				RR/DI CAG	RR/DI	RR/DI	IP	
D Transfer Expenses	A, B, C	ED CAG				RR/DI CAG	RR/DI	RR/DI	IP	
E Measurement	F, G, H	DI/RR CAG	DI/ED	DI/ED CAG	ED		RR	RR/DI	DI	IP
F Infrastructure Assets	E, G	DI	DI	DI/ED	ED		RR	RR/DI	DI	IP
G Heritage	E, F	DI	DI	DI/ED	ED		RR	RR/DI	DI	IP
H Natural Resources	E		PB	Project time line to be determined						
I Limited Scope Review of the Conceptual Framework		CAG	PB	Project time line to be determined						
J Improvements		IP		ED		IP		ED		IP
K Mid-term Work Program Consultation				CAG	DI	CP	WPC			
L IPSASB Handbook			Publish				Publish			

* At the December 2019 meeting the Board will discuss the strategic direction for the Leases Project regarding IPSAS 13, Leases, ED 64, and IFRS 16, Leases in relation to the development of a final pronouncement.

Key:

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

Approvals Key:

PB = Approval of Project Brief

CP = Approval of Consultation Paper

ED = Approval of Exposure Draft

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

CF = Approval of Conceptual Framework






RP = Approval of Final Recommended Practice Guidance

ST = Approval of Final Strategy and Work Program

WPC = Work Program Consultation

December 2019

EXPECTED CONSULTATIONS DURING THE NEXT YEAR

Project details	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020
Improvements to IPSAS, 2019 (Exposure Draft) Approved at the June 2019 meeting and issued in July 2019												
Public Sector Specific Financial Instruments (Exposure Draft) Approved at the June 2019 meeting and issued in August 2019												
Revenue with Performance Obligations (Exposure Draft) Approval expected at the December 2019 meeting												
Revenue without Performance Obligations (Update of IPSAS 23) (Exposure Draft) Approval expected at the December 2019 meeting												
Expenses: Transfer Expenses (Exposure Draft) Approval expected at the December 2019 meeting												
Improvements (Exposure Draft) Approval expected at the June 2020 meeting												

Key: 

Consultation document published (dates confirmed)



Consultation document not yet approved (dates not known, consultation period indicative)

December 2019

**PROJECTS COMPLETED AND/OR PUBLISHED DURING 2019-23
STRATEGY AND WORK PROGRAM PERIOD**

Project	Date Issued
<i>Collective and Individual Services, (Amendments to IPSAS 19)</i>	Approved September 2019
IPSAS 42, <i>Social Benefits</i>	January 2019
<i>Amendments to IPSAS 36, Investments in Associates and Joint Ventures, and IPSAS 41, Financial Instruments</i>	January 2019

**INDICATIVE AGENDA TIME ALLOCATIONS
(MARCH 2020–JUNE 2020)**

Project	March 2020 (Hours)	June 2020 (Hours)
Standing Items (Governance, Technical Director's Report, Outreach, Feedback, Closed Session etc.)	3	3
Leases	4	4
Revenue	-	-
Transfer Expense	-	-
Measurement	4	4
Infrastructure Assets	3	2
Heritage	3	2
Public Sector Financial Instruments	4	3
Improvements	-	1
Natural Resources	2	3
Limited Scope Review of Conceptual Framework	1	2
TOTAL	24	24

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Capital Grants (Revenue / Non-Exchange Expenses)–June 2019 Report Back

June 2019 CAG Discussions

1. Extracts from the draft minutes of the June 2019 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
June 2019 CAG Meeting Comments	
<p>IPSASB Principal, Edwin Ng introduced the Agenda Item noting this topic had received significant interest from IPSASB members and constituents alike. Mr. Ng summarized the accounting options and highlighted capital grants do not satisfy the requirements to be a performance obligation, as defined in ED 70, <i>Revenue with Performance Obligations</i> because there is no transfer of an asset to the transferor or a third-party beneficiary. Options for revenue recognition of capital grants presented were:</p> <ul style="list-style-type: none"> • Recognize immediately because there is no present obligation; • Recognition over the construction period as there is a potential return of funds if the obligation is not satisfied. Since performance is difficult to measure based on the terms of the arrangement over the construction period is used as a proxy; and • Recognition in accordance with the obligations in the arrangement as the arrangement provides sufficient information to identify obligations. 	
1. Mr. van Schaik commented that central governments provide grants for University, which he considers to be clearly IPSAS 23 transactions.	The IPSASB has developed guidance on capital transfers (grants) in Exposure Draft 71, <i>Revenue without Performance Obligations</i> (ED 71), the ED that will update the guidance in IPSASB to deal with IPSAS 23 transactions.
2. Mr. Ng responded that because there was no specific reference to capital grants in IPSAS 23, respondents to the Consultation Paper, Accounting for Revenue and Non-Exchange Transactions, requested more explicit guidance be developed.	<i>No further action necessary.</i>
3. Mr. van Schaik suggested one issue in practice was many grant agreements were in place prior to the effective date of IPSAS 23. Newer agreements considered the requirements of IPSAS 23 and included more explicit in terms.	ED 71, which is being proposed to update IPSAS guidance for revenue transactions covered by IPSAS 23, is expected to have a similar effect on constituents' agreements, which in turn may lead to improved public financial management.

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Representatives' and Observers' Comments	IPSASB Response
<p>4. Ms. Stachniak noted there were different underlying assumptions to each transaction provided in the examples. Since the case facts were not applied consistently, it was challenging for her to take a view.</p>	<p>The IPSASB has since evolved their views to focus on whether a present obligation exists upon recognition of an asset in an arrangement within the scope of ED 71. A present obligation arises from the unavoidable outflow of resources from the promise to 1) use funds as required (as enforceable activities or eligible expenditures) or 2) repay the funds in the event of a breach of the terms of the binding arrangement. The IPSASB also agreed that the past event that gives rise to a present obligation is when the parties enter into a binding arrangement. If a present obligation exists on initial recognition of the asset, an offsetting liability is recognized. This liability is decreased either by repayment of the amount to the transfer provider, or as revenue is recognized through the completion of enforceable activities or incurring eligible expenditures.</p>
<p>5. Mr. Ng agreed inconsistency existed, however noted that the underlying concept under consideration was whether a liability existed.</p>	<p><i>No further action necessary.</i></p>
<p>6. Ms. Nehmeyer-Srocke provided the view that revenue recognition for capital grants should be associated with the depreciation of the asset.</p>	<p>Following the principle set out in the response to comment 4, the IPSASB decided that funds received specifically for a capital transfer should only be recognized over the period of construction or acquisition or the capital asset.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>7. Ms. Colignon questioned what staff proposed was the obligation. She asked whether it was to construct the capital asset or whether it was to refund the transfer. She noted at the inception of the agreement there was a requirement to construct an asset, possibly a present obligation; however, there was no requirement to refund the transfer until the beneficiary of the grant fails to fulfil its obligation to construct. She would therefore vouch for revenue recognition at inception and a liability for the present obligation to construct or acquire an asset.</p>	<p>The IPSASB agreed that the present obligation arises from the requirement to use the funds as required per the terms of the agreement, or to refund the amounts in the event of a breach.</p>
<p>8. Mr. Ng agreed and noted the debate focused on whether the obligation to refund the transfer, if the terms of the arrangement were not met, satisfied the definition of a liability.</p>	<p><i>No further action necessary.</i></p>
<p>9. Mr. Yousef asked whether the guidance addressed contributions from owners.</p>	<p>ED 71 scopes out contributions from owners, however, does provide some limited guidance to help those applying that standard understand what a contribution from owners is.</p>
<p>10. Mr. Ng responded contributions from owners were not within the scope when accounting for a capital grant.</p>	<p><i>No further action necessary.</i></p>
<p>11. Mr. Zhang noted there were other issues to consider such as how transfers made in instalments should be accounted for.</p>	<p>The accounting for ED 71 transactions is dependent on the principles and their application to the terms of the agreement, which would include the timing of payments.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>12. Mr. Smith indicated that Ms. Cearns views submitted in writing in her absence noted that these arrangements were similar to service concessions. She believed more consideration was necessary. She was not convinced by option 2 and thought that option 3 was too simplistic. Based on the analysis provided by staff she supported option 1.</p>	<p>ED 71's scope includes proposed guidance on accounting for capital transfers. A capital transfer is where one entity provides resources to another entity to construct a capital asset. This is different than a service concession arrangement transaction covered by IPSAS 32, <i>Service Concession Arrangements: Grantor</i>, which sets out accounting requirements for the grantor (public sector entity) in a service concession arrangement (rights and obligations set out in an arrangement governing how a particular public sector asset is operated on behalf of a grantor).</p>
<p>13. Mr. Matthews commented that in the public sector there is a desire to match revenue and expenses. He asked whether obligations that will never be enforced had been considered.</p>	<p>The IPSASB's proposal to recognize revenue as enforceable activities are completed or as eligible expenditures are incurred could result in a consumption-based pattern of revenue recognition. Furthermore, using the underlying principle set out in the response to comment 4, unenforced arrangements would result in immediate recognition of revenue, as there will be no obligation which forms the basis of recording a liability.</p>
<p>14. Mr. Ng responded that enforceability was addressed in ED 70. Obligations that are not enforced would result in the immediate recognition of revenue.</p>	<p><i>No further action necessary.</i></p>
<p>15. Mr. Müller-Marqués Berger noted that enforceability was also addressed in IPSAS 23.</p>	<p><i>No further action necessary.</i></p>
<p>16. Ms. Aldea Busquets supported option 3, as it supports better resource management and transparency. She was hesitant to support option 1 and was of the view option 2 was broadly consistent with option 3.</p>	<p><i>See response to comment 4 above.</i></p>

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Representatives' and Observers' Comments	IPSASB Response
17. Ms. Weinberg noted where public sector entities have historically not enforced a transaction, they may have been circumventing the law in her view.	The IPSASB has included ED 71 guidance that deals with enforceability and how binding arrangements with breaches that were historically unenforced are not considered enforceable.
18. Mr. Ndiaye asked whether obligations that may have created contingent liabilities had been considered in the context of these transactions.	The principles noted in the response to comment 4 above apply when a present obligation results in the recognition of a liability. If only a contingent liability, as defined in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> , exists, no liability would be recognized upon the receipt of assets. If the revenue transaction only gives rise to a contingent liability, revenue would be recognized upon receipt of the assets.
19. Mr. Gisby suggested if a binding arrangement existed, he supported option 3. When the terms were not explicit, option 2 seemed more appropriate.	<i>See response to comment 4 above.</i>
20. Ms. Kim commented she found it difficult to choose an option as each example has different case facts. She suggested the guidance consider the underlying transaction.	The proposed revenue recognition approach in ED 71 requires an entity to consider the specific facts and circumstances of the transaction.
21. Mr. Carruthers noted capital transfers presented a challenging issue. Ultimately the IPSASB was considering when to recognize revenue for transactions where cash was transferred in relation to an asset, prior to the construction period.	<i>No further action necessary.</i>
22. Ms. Colignon suggested considering also how a capital grant transaction was different from a transaction with owners that would affect equity rather than profit or loss. Based on the examples provided she questioned whether a receivable even existed when an agreement was not enforceable.	<i>See response to comment 4 above.</i> ED 71 contains specific guidance on whether an asset should be recognized. The ED also specifies that contributions from owners are not in scope.

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Representatives' and Observers' Comments	IPSASB Response
<p>23. Ms. Nehmeyer-Srocke found it helpful how Mr. Carruthers brought it back to the question the IPSASB was trying to address. She supported matching the revenue to the amortization of the asset because for budget purposes, revenue is required to equal expenses. Therefore, in her view matching between the asset and the liability was necessary.</p>	<p>While the IPSASB did not explicitly propose the matching of revenue to expenses in ED 71, the concept of recognizing revenue as eligible expenditures are incurred, as noted in the response to comment 4 above, may result in a similar outcome under certain circumstances.</p>
<p>24. Mr. Nazaroedin was in favor of option 3 and questioned whether the restriction under option 2 met the definition of a liability in the conceptual framework.</p>	<p><i>See response to comment 4 above.</i></p>
<p>25. Mr. Ng responded it depended on whether you viewed the refund terms as a present obligation.</p>	<p><i>No further action necessary.</i></p>
<p>26. Ms. Sanderson noted it was complicated and there is a need consider the issue from the user perspective; as they receive the most value from financial information. If a recipient received funds with no refund requirements, immediate recognition seemed appropriate. Option 3 was valid when a substantive requirement existed to refund the transfer. She was not supportive of Option 2 as she was of the view straight-line recognition did not provide adequate transparency.</p>	<p>The IPSASB's proposals within ED 71 to recognize revenue immediately if the binding arrangement is not enforceable, or to recognize revenue as enforceable activities are completed or as eligible expenditures are incurred, is aligned with this comment.</p>
<p>27. Mr. Mangelsdorf supported recognizing the capital grant over the term of the arrangement if an obligation existed to refund the grant if the entity did not comply with the agreement.</p>	<p>The IPSASB agreed approach in ED 71 is consistent with this CAG member view.</p>
<p>28. Ms. Stachniak concurred with Ms. Nehmeyer-Srocke and Ms. Sanderson. The public was primarily concerned with the performance of the constructed asset. Revenue recognized on day one, often results in future losses which are concerning to the public.</p>	<p>As noted in the response to comment 4 above, day-one recognition of revenue would only occur in very specific circumstances where the binding arrangement is unenforceable or where the binding arrangement does not result in any present obligations.</p>

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Representatives' and Observers' Comments	IPSASB Response
29. Ms. Kim supported Option 3 because it links to obligations and provides more transparency. She questioned whether Option 2 was appropriate if the timeline changes.	<i>See response to comment 4 above.</i>
30. Mr. Matthews believed Option 3 was the best option in terms of public interest. He noted in Canada, jurisdictions have turned down transfers as a result of the accounting requirements.	<i>See response to comment 4 above.</i> The proposed revenue recognition accounting in ED 71 will depend on the specific terms of the arrangement. If the government or transfer recipient was concerned with day-one recognition of revenue, the transfer arrangement should include terms that ensure specific activities are required by the transfer recipient.
31. Mr. van Schaik asked whether the expenses project mirrored the accounting.	The IPSASB has since developed ED 72, <i>Transfer Expenses</i> , which mirrors the principles from ED 70 and ED 71.
32. Mr. Stanford responded there was no decision on mirroring revenue and expenses related to capital grants. In theory this is acceptable, but the IPSASB continued to consider all circumstances.	<i>No further action necessary.</i>
33. Ms. Aldea Busquets noted that her jurisdiction applies option 3.	<i>Point noted.</i>
34. Mr. Müller-Marqués Berger thanked members for their comments and summarized 3 questions to be considered: <ul style="list-style-type: none"> • If no performance obligation is identified, is the experience that transfers occur that include no present obligations? • From a public interest perspective does one option address all arrangements? • What are the relevant clauses in the arrangements and what is the accounting relationships to those clauses? 	<i>No further action necessary.</i>

Matters for CAG Consideration

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

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5.3

Natural Resources—June 2019 Report Back

June 2019 CAG Discussions

1. Extracts from the draft minutes of the June 2019 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
June 2019 CAG Meeting Comments	
IPSASB Principal, Edwin Ng, introduced the Agenda Item and provided an overview of the project. He noted the primary issue members were asked to address was the project scope and asked members to consider the following questions: Question 1 – Do you agree with project scope? Question 2 – Do you agree with how to incorporate IFRS 6? Question 3 – Do you agree with the communication plan?	
The CAG members commented on Question 1 as follows:	
1. Mr. Matthews supported the development of a standard on this topic. He suggested the primary considerations include the cost of extracting minerals and the costs associated with greenhouse gases.	The IPSASB will consider the scope of the project the issues it will include in early 2020. The issues highlighted will be considered for inclusion in the project brief, including how they might be managed in a phased approach.
2. Mr. Gisby noted the importance of limiting the project scope. When focused on a specific item, consider the recognition and measurement for each item. He advised breaking down the different scope areas and identifying the different problems for each, rather than trying to scope the project to cover all items.	The project brief will include the specific issues expected to be covered in the project, as well as how the project will be phased, including timelines for each phase.
3. Ms. Colignon noted items that belonged to the public domain should be scoped in. Whether these items should be recognized in the statement of financial position should be addressed, especially in the current context of creating value.	See comment #2. The IPSASB will consider each item in accordance with the guidance in the conceptual framework to determine items that meet the definitions of elements, when they should be recognized and how they should be measured.

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Representatives' and Observers' Comments	IPSASB Response
<p>4. Mr. van Schaik suggested a need to consider assets associated with generating energy from renewable energy sources such as wind and solar.</p>	<p>Assets related to renewable energy such as windmills and solar systems would be covered by IPSAS 17, <i>Property, Plant and Equipment</i>. However, items such as the wind and sun are unlikely to meet the definition of an asset themselves, as it is unlikely any entity could exercise control over the resource.</p>
<p>5. Mr. Zhang noted it was extremely difficult to distinguish the intangible right from the natural resource. She noted that public sector natural resources confuse users as it creates an expectation that there are more assets than are actually available.</p>	<p>The IPSASB project will intend to establish for each item if there is a resource, that can it be controlled and if so, can it be reliably measured. This should help with distinguishing from the intangible right (sovereign power) from the actual item (resource, and whether it can be controlled and measured).</p>
<p>6. Mr. Ndiaye noted from a transparency and accountability perspective, natural resources play an important role. He identified subsoil resources and forests as critical items to consider within the scope of the project.</p>	<p>The IPSASB project brief will propose a phased project management approach and address the most critical issue first. These items highlighted by the CAG member will be considered in this context.</p>
<p>7. Mr. Mangelsdorf proposed avoiding the philosophical issues of what was a natural resource and instead urged that the focus should be recognition and measurement issues.</p>	<p>See comment #5.</p>
<p>8. Ms. Weinberg suggested that caution was required as some jurisdictions argue natural resources do not have value because they were held for environmental purposes. However, when a significant liability requires settlement, for example, a pension liability, the jurisdiction disposed of natural resources to generate revenues from these unrecognized assets.</p>	<p>Determination of whether an item should be recognized in the financial statements will be based on the IPSASB Conceptual Framework guidance, and whether the item meets the definition of an element, which can be controlled and reliably measured.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>9. Ms. Sanderson cautioned about ensuring that the scope of the objectives of this project are clear and serve the public interest. Ms. Sanderson also cautioned about reinventing the wheel as principles exist that provide a strong base for accounting for assets. Control should continue to be the key indicator as to whether an asset exists. For example, in Australia, water is a key issue for citizens. Once water is in a reservoir, citizens have significant interest in how it was managed. Recognizing water in advance of acquiring control might not serve the public interest.</p>	<p>See comment #5 and comment #8.</p>
<p>10. Mr. Carruthers raised the question whether the IPSASB should also consider sovereign powers. If the government genuinely had powers at its disposal, was there a stewardship issue that should be addressed to help users understand.</p>	<p><i>No further action required.</i></p>
<p>11. Mr. Blake, IPSASB Member, noted that based on water shortages in Australia in the past, specialists were assembled to measure and manage water.</p>	<p><i>No further action required.</i></p>
<p>12. Mr. Müller-Marqués Berger noted this was consistent with the stewardship discussions related to heritage assets and whether the financial statements were the appropriate location for them to be addressed.</p>	<p><i>Point Noted.</i></p>
<p>The CAG members commented on Question 2 as follows:</p>	
<p>13. Mr. Gisby provided the view that extractive activities impacts a small number of public sector organizations. He suggested reference to IFRS 6 may be an appropriate solution.</p>	<p>The IPSASB will consider in the project brief the link with IFRS 6 in the project.</p>
<p>14. Ms. Makgolo stated the complexity of IPSAS resulted in challenges in convincing their legislator to adopt IPSAS. Developing more complicated standards impacts compliance. Mirroring the requirements of IFRS 6 may reduce complexity as users are already familiar with the requirements.</p>	<p>The IPSASB will consider in the project brief the link with IFRS 6 in the project and where possible leverage the principles to the extent possible.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>15. Mr. Chowdhury noted because requirements exists in many jurisdictions for items such as electro-magnetic spectrum rights, they should be addressed at a later stage.</p>	<p>IPSASB staff note that at the 2019 regional roundtables held in Asia and Africa, that attendees flagged electro-magnetic spectrum (radio spectrum) rights are not natural resources, but rather intangible assets created through the government exercising their sovereign powers to regulate and control the use of radio spectrum. Attendees noted that radio spectrum was different from natural resources in that its use does not degrade or deplete the resources in the same way as sub-soil resources, water and biological items (trees and animals). Therefore, roundtable attendees noted that the IPSASB should consider further if radio spectrum is appropriate to be in scope of the project at all. This will be considered further in developing the project brief.</p>
<p>16. Mr. van Schaik supports the project because governments do not disclose the volume of minerals in the ground while their counterparts in the private sector entities do.</p>	<p>IPSASB staff note that the private sector only recognizes assets for the cost to either purchase or develop sub-soil mineral assets, rather than recognition of the minerals themselves. IFRS provides reporting entities with the option to use a fair value model for the subsequent measurement of capital assets or intangible assts when specific criteria are met. However, based on surveys conducted by the Big 4 accounting firms, substantially all listed entities in extractive industries use the cost approach. Further, the volume of minerals and changes to those each year are used for impairment test purposes to determine if the amount spent to acquire and/or develop mineral resources are impaired or not.</p>
<p>The CAG members commented on Question 3 as follows:</p>	

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Representatives' and Observers' Comments	IPSASB Response
17. Mr. Smith indicated that Ms. Cearn's views submitted in writing in her absence noted that the communications plan was not evident in the paper developed.	IPSASB staff note that the detail plan was not included in the papers. The outline of the communications plan will be included in the project brief developed in 2020 for approval by the IPSASB.
18. Mr. Smith clarified the communications plan had not yet been developed. However, the CAG was asked whether a plan was necessary.	<i>No further action required.</i>
19. Ms. Sanderson noted active involvement was required. IPSASB members and could hold roundtables in order to hear stakeholder feedback particularly in parts of the world with high interest.	IPSASB staff will consider how to leverage the IPSASB regional roundtables and other strategic engagement activities to engage with constituents globally interested in this project.
20. Ms. Colignon agreed a communications plan was necessary. She suggested not setting a limit on the financial information when constituents were initially engaged.	<i>Point Noted. See comment #17.</i>
21. Mr. Gisby noted outreach and expectation management was important.	<i>Point Noted. See comment #17.</i>
22. Mr. Müller-Marqués Berger noted this was a complex project. However, while risks existed, the benefit of increasing the relevance of the IPSASB was worth it.	IPSASB staff highlight that this project has been added to the IPSASB work plan and is working to manage expectations of external stakeholders.
23. Mr. Mangelsdorf encouraged the project to be relevant, but also to take stock of what has already happened.	The project will take stock of other natural resources initiatives, including to international financial reporting, national financial reporting, and other initiatives undertaken by international organizations related to statistical accounting and better management of natural resources.
24. Ms. Weinberg suggested that the project currently addressed liabilities. She noted that her view was that more focus was required on the assets. When assets were not recognized, users discounted the liabilities.	The project will focus on natural resource assets and consider any related liabilities. For example, the need for decommissioning provisions for mineral property assets (mines for example).

Matters for CAG Consideration

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

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Heritage—June 2019 Report Back

June 2019 CAG Discussions

1. Extracts from the draft minutes of the June 2019 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
June 2019 CAG Meeting Comments	
IPSASB Principal, Gwenda Jensen, provided an overview of the Heritage Project, which covered progress since its inception. She noted the IPSASB's preliminary views supported heritage asset recognition. Constituents' responses to the Heritage CP generally supported recognition of heritage assets. Ms. Jensen outlined the two issues for members consideration (1) relevance of the operational/non-operational distinction applied to heritage assets, and (2) use of symbolic value.	
CAG members commented on issue 1 as follows:	
1. Ms. Sanderson noted the operational and non-operational distinction was useful initially in the United Kingdom when moving to accruals in the public sector. However, she noted that the approach, was not conceptually strong and had changed over time. If there was an asset, with reference to the Conceptual Framework's asset criteria, then an asset should be recognized. She suggested considering how the private sector accounts for heritage assets.	The IPSASB has decided that the operational/non-operational approach will not be taken forward. It is considering the implications of heritage use for measurement. For recognition the IPSASB is applying the Conceptual Framework's recognition criteria (asset criteria and ability to measure).
2. Ms. Nehmeyer-Srocke noted operational assets should be on the balance sheet. Non-operational heritage assets may not be recognized in order to simplify heritage accounting to meet public sector needs.	The IPSASB noted the issue of finding ways to simplify accounting for heritage. However, it has decided that the operational/non-operational approach will not be taken forward.
3. Ms. Colignon was of the view an operational/non-operational distinction should not impact recognition. Any impact on measurement needed to tie back to the Conceptual Framework and its meaning of "operational capacity".	The IPSASB is considering the measurement implications of different uses for heritage, with coordination between Heritage and Measurement.

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Representatives' and Observers' Comments	IPSASB Response
<p>4. Mr. Gisby explained that Accountancy Europe proposed the IPSASB consider distinguishing between the operational and non-operational heritage items. However, he was open to moving away from this approach to a more nuanced focus on the usage of heritage assets. He further stated, this distinction should not be used for recognition as heritage items that are assets should all be recognized.</p>	<p>The IPSASB is now considering heritage use rather than the operational/non-operational distinction, and focusing on implications for measurement rather than recognition.</p>
<p>5. Ms. Weinberg expressed doubt about using the operational/non-operational distinction. The IPSASB could lock itself into an unwanted result in applying this distinction. For example, there could be different views on whether the Eiffel Tower was non-operational or operational. The Eiffel Tower could be viewed as operational, because it provided educational services, viewing value, and revenue to the municipality.</p>	<p>The IPSASB has decided that the operational/non-operational approach will not be taken forward.</p>
<p>6. Ms. Busquets agreed the operational/non-operational distinction was complicated to apply in practice. She was not convinced this distinction is useful.</p>	<p>The IPSASB has decided that the operational/non-operational approach will not be taken forward.</p>
<p>7. Mr. Yousef stated heritage items that meet the definition of an asset should be recognized. The operational/non-operational distinction was only useful for measurement. A museum building cannot operate as a museum without its collections. Therefore, a collection of paintings in a museum, for example, was essential to operations and should not be considered non-operational.</p>	<p>The IPSASB is applying the definition of an asset in the Conceptual Framework to heritage items. Discussions indicate that IPSASB members continue to support the IPSASB's preliminary view that heritage items such as museum collections have service potential and can be assets.</p>
<p>8. Mr. Stanford said that heritage assets did contribute to operational capacity and had service potential. The distinction was for heritage assets used for heritage purposes and those used for non-heritage purposes. There were potential recognition and measurement consequences.</p>	<p><i>No further action necessary.</i></p>

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Representatives' and Observers' Comments	IPSASB Response
9. Mr. Mangelsdorf noted an asset is an asset. The operational/non-operational distinction was not relevant to recognition of heritage assets.	The IPSASB has decided that the operational/non-operational approach will not be taken forward.
10. Ms. Stachniak agreed heritage items that were assets should be on the balance sheet. This relates to the integrity of the IPSAS accounting framework, which should treat assets and their recognition consistently. The operational/non-operational distinction was only potentially helpful for measurement.	The IPSASB is now considering heritage use, rather than the operational/non-operational distinction, and focusing on implications for measurement rather than recognition.
11. Mr. Schatz, IPSASB Member and Chair of the Heritage Task Force, informed the CAG that Task Force views have shifted towards following a normal procedure for heritage asset recognition and measurement. There continued to be measurement challenges with heritage assets. Therefore, measurement guidance was needed, particularly where entities revalue heritage assets.	<i>No further action necessary.</i>
12. Mr. Smith indicated that Ms. Cearns views submitted in writing in her absence noted some support for the operational/non-operational distinction, which could be useful to address the measurement of heritage assets.	The IPSASB has decided that the operational/non-operational approach will not be taken forward. However, it is considering the implications of heritage use for measurement of heritage assets.
Mr. Müller-Marqués Berger summarized CAG members' views that the operational/non-operational distinction was not relevant to recognition of heritage assets. If a heritage item fulfils the asset definition, then it should be recognized on the balance sheet. CAG members were unconvinced with the usefulness of an operational/non-operational distinction for the measurement of heritage assets. While acknowledging how an entity uses a heritage asset could impact its measurement, CAG members provided views that indicated consideration of asset usage does not require classifying heritage assets as either operational or non-operational.	
The CAG members commented on issue 2 as follows:	
13. Ms. Sanderson indicated she struggled to see the benefits from using symbolic value to measure heritage assets. She recommended remaining consistent with the Conceptual Framework.	The IPSASB will consider measurement bases for heritage assets recognition at a future meeting. Symbolic value does not provide information for the assessment of cost of services, operational capacity or financial capacity.

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Representatives' and Observers' Comments	IPSASB Response
<p>14. Mr. Zhang did not support use of symbolic value, which could confuse the users of financial statements and would reduce comparability. He suggested the Conceptual Framework be applied to operational and non-operational heritage assets, with disclosure in the notes. Heritage items that were property, plant and equipment (PP&E) could be recognized by applying the normal accounting requirements, with disclosure of those items that were pure heritage.</p>	<p>The IPSASB will consider measurement bases for heritage assets recognition at a future meeting. However, as noted above, the IPSASB has decided that the operational/non-operational approach will not be taken forward. Any IPSASB consideration of disclosures will follow decisions on heritage asset recognition and measurement.</p>
<p>15. Mr. Gisby did not support using symbolic value, since it was not consistent with the IPSASB Conceptual Framework. However, symbolic value could be useful when the benefits of measuring heritage items exceed the costs using another measurement basis.</p>	<p>The IPSASB noted the issue of costs and benefits when accounting for heritage. The IPSASB plans to consider measurement bases for heritage asset recognition at a future meeting.</p>
<p>16. Ms. Nehmeyer-Srocke commented conceptually that symbolic value was not appropriate, but it could reduce the burden of IPSAS adoption.</p>	<p>The IPSASB noted the need to reduce the burden of IPSAS adoption. The IPSASB will consider this in terms of guidance and transitional arrangements.</p>
<p>17. Ms. Colignon stated where there are other ways to account for heritage assets, symbolic value was not needed. Symbolic value could be used as a practical expedient, if other approaches to measurement cannot be used. She added that reflecting the significance of a measurable asset as unsaleable heritage could be achieved through freezing its gross carrying amount, except for one-off impairment, and providing qualitative information in the notes</p>	<p>The IPSASB will consider measurement bases for heritage assets recognition at a future meeting. Where assets cannot be measured, they should not be recognized.</p>
<p>18. Mr. Mangelsdorf explained that he was sceptical about use of symbolic value because you were able to find a value for everything. There were ways to simplify the measurement of museum collections by valuing, for example, the collection as a whole rather than individual items in the collection.</p>	<p>The measurement of museum collections is of special significance for heritage. The IPSASB expects to discuss valuation of museum collections at a future meeting.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>19. Ms. Stachniak commented that transparency should be the main concern. She asked if symbolic value was used, then how can users rely on information in the financial statements? Using symbolic value meant you are not measuring the asset, and the choice was really between measuring or not measuring, rather than choosing an appropriate measurement basis.</p>	<p>In its CP the IPSASB noted that the Conceptual Framework does not include symbolic value as a measurement basis, because it does not provide information for the assessment of cost of services, operational capacity or financial capacity.</p>
<p>20. Mr. Yousef explained symbolic value was used because some jurisdictions did not know how to measure heritage assets. Symbolic value was used because they wanted to recognize heritage assets, even when the assets could not be measured.</p>	<p>This raises the need for guidance on measurement of heritage assets, which the IPSASB will consider at a future meeting.</p>
<p>21. Ms. Kim agreed the issue was whether heritage assets were recognized. She noted it was often the case assets were fully depreciated and valued at zero. She supported scope for an entity to have "1" in the asset register if they needed to do that, because the information system needed an entry. This was an implementation issue and important during first time adoption of recognition of heritage assets. She encouraged the IPSASB to be flexible and allow use of "1," if a zero value caused data entry problems.</p>	<p>The IPSASB distinguishes between requirements with respect to measurement bases, which it develops in its roles as a standard setter, and how reporting entities configure their information systems for management and other disclosures (e.g. service performance information) or for keeping track of items that are not recognized as assets but still important to manage or report upon.</p>
<p>22. Ms. Weinberg emphasized the importance of accountability to future generations. Public sector entities should be preserving heritage assets. If an entity cannot measure heritage assets, it cannot manage that asset. She asked why an entity should protect/guard/maintain the asset if it was valued at only 1 currency unit? Connect the value of the heritage asset to the need for its preservation. What would happen if that asset was made available for sale, which can happen if an entity has financial difficulties?</p>	<p>The public interest aspect of preserving heritage assets is consistent with users' needs for information for accountability and decision-making. The IPSASB notes that measurement of heritage assets at only 1 currency unit facilitates poor management and poor decision-making around their sale, because it understates even their monetary value.</p>

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Representatives' and Observers' Comments	IPSASB Response
<p>23. Mr. Boutin stated stewardship was the key to public interest related to heritage assets. Symbolic value looked unusual and the information was not useful. Disclosure of the existence of an unvalued/zero value heritage asset could achieve stewardship benefits.</p>	<p>Stewardship of heritage can be supported through information in the financial statements or non-financial reports. In the Heritage Project the IPSASB is now focusing on the financial statements. Any IPSASB consideration of disclosures will follow decisions on heritage asset recognition and measurement.</p>
<p>24. Mr. van Schaik stated he was in favour of treating heritage assets like any other asset. He questioned why it would be appropriate to use symbolic value only for heritage assets, since other types of assets were difficult to measure or can also be depreciated down to a zero.</p>	<p>The IPSASB Conceptual Framework does not include symbolic value as a measurement basis, on the basis that it does not provide information for the assessment of cost of services, operational capacity or financial capacity.</p>
<p>25. Mr. Smith indicated that Ms. Cearns views submitted in writing in her absence argued there was no public interest support for using symbolic value. Using symbolic value would be a dangerous precedent. If the IPSASB departs from the Conceptual Framework for heritage assets, then this could support departures with respect to other types of assets.</p>	<p>The IPSASB will consider measurement bases for heritage assets recognition at a future meeting. In its Heritage CP the IPSASB's preliminary view was that historical cost, market value, and replacement cost are appropriate measurement bases for heritage assets.</p>
<p>Mr. Müller-Marqués Berger summarized that CAG members did not support use of symbolic value as a measurement basis and noted recognition and measurement of heritage assets should be consistent with the Conceptual Framework.</p>	

Matters for CAG Consideration

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