

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: December 5, 2022

Agenda Item **6**

For:

Approval

Discussion

Information

DIFFERENTIAL REPORTING

Project summary	<p>This project is in the research phase. Research will be used to develop a project brief.</p> <p>The expected objective of this project is to develop a differential reporting model for the public sector.</p>	
Discussion Items	Differential Reporting	6.1

Differential Reporting

Background

1. The IPSASB has considered whether a public sector differential reporting model should be a priority in four separate Work Program consultations:
 - (a) The [IPSASB Consultation on 2013-2014 Work Program](#);
 - (b) The IPSASB Strategy Consultation 2015-2019 & Work Program Consultation 2015-2019,
 - (c) The IPSASB Proposed Strategy and Work Plan 2019-2023; and
 - (d) The [Strategy and Work Program 2019-2023 Mid-Period Work Program Consultation](#).
2. Public support for a project on differential reporting was initially limited. Respondents to consultations 2(a), 2(b) and 2(c) considered differential reporting low priority for several reasons:
 - (a) **Feasibility.** Respondents questioned whether an international solution to differential reporting was achievable; noting it may be better dealt with at the jurisdictional level where standards can be tailored for local needs.
 - (b) **Prevalence of issue.** Respondents questioned whether there has been enough uptake of IPSAS to warrant a set of less complex standards. Respondents also noted there has been a lack of adoption of the standards developed for small and medium sized entities in the private sector, and therefore some questioned if the IPSASB should invest resources on this topic.
 - (c) **Technical and resource considerations.** At the time respondents noted gaps still existed in IPSAS. Respondents urged developing a complete set of IPSAS and filling the gaps should be the highest priority.
 - (d) **Consequences.** Respondents noted all entities in the public sector are publicly accountable (i.e., use of public resources impacts all citizens). Therefore, users' needs are the same regardless of the characteristics of the entity.
3. As gaps in the suite of IPSAS have minimized, and with adoption/implementation momentum increasing, the priorities of respondents have evolved. Respondents to the [Mid-Period Work Program Consultation](#), noted in paragraph 2(d), supported differential reporting because:
 - (a) **It would allow entities with lower capacity to adopt and apply IPSAS.** A differential reporting project could support a broader range of public sector entities applying IPSAS and could provide a base level of comparability between all entities applying either form of IPSAS, thereby supporting delivery of Theme D.
 - (b) **Prevalence of issue.** The recently published [International Public Financial Accountability Index 2021 Status Report](#) shows that there will be a continuing shift from cash to accrual accounting over the next decade, and that IPSAS usage and influence is increasing. For 'less complex' public sector entities, the costs of implementing IPSAS-compliant financial reporting may outweigh the benefits received by the users unless some form of relief from the full requirements of the accrual-basis IPSAS is provided.
 - (c) **Feasibility / technical and resource considerations / consequences.** Respondents agreed with the IPSASB's view in the [2021 Mid Period Work Program Consultation](#) that there are

minimal gaps remaining in the IPSAS literature.¹ While the same feasibility challenges remain, the IPSASB now has the appropriate resourcing to devote to developing a public sector solution.

4. Based on stakeholder feedback, in March 2022 the IPSASB added Differential Reporting to the Work Program. Initial research began in Q3 2022 to inform the development of a project brief.

Developing the Project Brief

5. Since adding differential reporting to the Work Program, consistent with its 2019-2023 Strategy, the IPSASB has undertaken an initial research phase to ensure it understands the scope of public sector issues and the resource requirements, as well as what the intended output is in terms of standards and/or guidance.
6. This research will result in a project brief to be developed in 2023. Given the complexity of the challenges identified in developing a differential reporting model, the IPSASB wishes to obtain advice from CAG members in how to consider and reflect these challenges in the project brief.
7. The key challenges identified, which require further consideration by staff and the IPSASB to inform the development of the future project brief are:
 - (a) How do you define 'less complex entity' in the public sector context (i.e., who can apply differential reporting); and
 - (b) How does a simplified accounting model provide relief (i.e., how do you simplify IPSAS)?

Issue 1 – Defining 'Less Complex Entities'

8. The first challenge in developing a global public sector differential reporting model is determining who can apply the simplified accounting model. Based on research to date, responses to the [2021 Mid-Period Work Program Consultation](#), participant feedback at the September 2022 International Standards Setters Forum, and the IPSASB discussion at its September meeting, there are several approaches available to determine who can apply a simplified accounting model:
 - (a) **Public accountability.** Whether an entity is publicly accountable can determine whether an entity can apply the differential reporting model. This is consistent with the approach taken by the IASB² in its 'IFRS for SMEs'³:
 - (i) Publicly accountable entities apply IFRS.
 - (ii) Non-publicly accountable entities may apply IFRS for SMEs.

However, this approach presents a public sector challenge. Many stakeholders have highlighted all public sector entities are publicly accountable. If this approach is considered, the IPSASB would need to differentiate when it is appropriate to have reporting alternatives to

¹ The Mid Period Work Program Consultation proposed two major projects. Neither project related to gaps in IPSAS. Presentation of financial statements, and differential reporting are broad projects. The fact there were no projects proposed, or supported by respondents, related to technical gaps in the literature supports the general completeness of the IPSAS suite of standards.

² International Accounting Standards Board

³ Small and Medium Size Enterprises

satisfy public accountability. Identifying these differences and developing an international solution will be difficult to articulate.

- (b) **Characteristics which signify complexity, or combination of elements such as size, turnover, number of employees etc.** Whether an entity exceeds a specific threshold, such as its size, can determine whether an entity can apply the differential reporting model.⁴ Entities that exceed the threshold apply existing IPSAS. Entities that do not exceed the threshold may apply the differential reporting option. This is consistent with the approach taken by several national standard setters including New Zealand and Australia. It is challenging to apply this approach globally because jurisdictions have different sized economies, therefore, a level of an element (e.g., turnover, assets, expenses) that may be considered appropriate in one jurisdiction may be unsuitable for another jurisdiction.
- (c) **Define characteristics of less complex entities and allow jurisdictions and entities to regulate who can apply which model.** Similar to the approach the IPSASB took in developing the guidance in the 'Applicability of IPSAS' project, the IPSASB decided to positively define the characteristics of entities which should apply IPSAS. This allowed jurisdictions to decide whether or not their entities are those intended to apply IPSAS. This approach was taken in the 'Applicability of IPSAS' project because the IPSASB does not have any ability or jurisdiction to determine whether entities should apply IPSAS, or how they should apply them, as these are jurisdictional regulatory decisions. Similarly, characteristics of less complex public sector entities could be described positively, with a simplified accounting model to apply for such entities, but the decision on which entities should apply IPSAS or the less complex guidance, would be a jurisdictional decision to apply.

Question for the CAG

The project brief will propose approaches for defining 'less complex entity' for the IPSASBs consideration. Are there benefits/drawbacks to any of the approaches identified the IPSAB should consider?

Issue 2 – Simplified Accounting

9. Simplified accounting requirements should target the information needs of users of 'less complex entities'. However, the challenge is balancing a meaningful simplification of IPSAS to address the resource limitation of some public sector entities, while continuing to provide financial statement users with relevant and useful information.
10. Based on research to date, responses to the [2021 Mid-Period Work Program Consultation](#), participant feedback at the September 2022 International Standards Setters Forum, and the IPSASB discussion at its September meeting, there are several approaches available to simplify IPSAS:
- (a) **Recognition and measurement.** A differential reporting model could simplify IPSAS principles for recognition and measuring assets, liabilities, surplus and deficit. For example, the IASB applies this approach. One simplification made by the IASB, for example, is to allow goodwill to be amortized rather than impaired, and all borrowing and development costs are expensed.

⁴ Based on discussions at the 2022 International Standard Setters Forum other elements suggested included audit related indicators such as audit fee or audit requirements, link to budget, number of employees, risk profile of the entity, or business model.

- (b) **Disclosure.** A differential reporting model could review all IPSAS disclosures, requiring only those that are necessary for entities applying a differential reporting model. For example, the IASB also applies this approach, and there is approximately a 90% reduction in disclosures as compared to full IFRS.
 - (c) **Combination of recognition and measurement, and disclosure.** A combination of both recognition and measurement, and disclosure relief may be an approach that best achieves the objective of simplifying the application of IPSAS to 'less complex entities'. As noted in the table in [Appendix A](#), this approach represents the most commonly applied approach by jurisdictions globally.
11. Based on discussions at the September 2022 IPSASB meeting, disclosure alone is not expected to provide sufficient relief. It is more likely, the IPSASB will follow suit with several national standards setters (see [Appendix A](#)) and the IASB and combine recognition and measurement and disclosure relief.

Question for the CAG

The project brief will propose approaches for simplified accounting for the IPSASBs consideration. Are there benefits/drawbacks to any of the approaches identified the IPSAB should consider? Do CAG members see other approaches than those described above?

Appendix A – Summary of Differential Reporting Models by Jurisdiction

	Brazil	China	Germany	Japan	Philippines	South Africa ⁵	Sweden	Switzerland	Tanzania
Is there a differential reporting model									
Private Sector	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Public sector			No		Yes	No	No	Yes	
What type of relief is provided									
Simplified accounting	Yes	Yes	Yes	Yes	Yes	N/A	Yes	Yes	Yes
Reduced Disclosures	Yes	Yes	Yes	No	Yes	N/A	Yes	Yes	Yes
Both	Yes	Yes	Yes	No	Yes	N/A	Yes	Yes	Yes

⁵ Discussions with staff from South Africa revealed that a project on differential reporting for the public sector had commenced twice but as of yet no differential reporting regime has been developed.