To: IAESB

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Chair, International Public Sector Accounting Standards Board (IPSASB)

International Public Sector Accounting Standards Board (IPSASB) –2018Q4 Progress Report

Current Work Program Initiatives

Social Benefits

The IPSASB approved IPSAS 42, *Social Benefits,* at its December meeting. It fills one of the last significant omissions in IPSASB's literature and brings to a successful conclusion a project, which started in 2002 and was deferred for approximately five years for the substantial completion of the IPSAB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 42 was published in late January 2019 at the same time as ED 67, *Collective and Individual Services and Emergency Relief* (see below), so that, in the near future, the IPSASB literature will provide a full picture of accounting for all social policy obligations of government.

Under IPSAS 42, an entity recognizes a liability for the next social benefit payment. This means that IPSAS 42 will require governments to report liabilities for social benefits, in some cases for the first time. This recognition point was the most controversial aspect of the IPSASB's social benefits project. A significant number of stakeholders—and some IPSASB members—disagreed with the chosen approach. In terms of the recognition point, there were broadly two camps. One camp supported recognition when the eligibility criteria for the next benefit had been satisfied (the approach in IPSAS 42), while the other camp supported an earlier recognition point for some benefits such as contributory pensions.
The IPSASB also agreed to include the "Insurance Approach" in IPSAS 42. This approach permits a government to use insurance accounting for social benefit schemes that operate in a similar manner to an insurance portfolio. While the IPSASB does not expect this approach to be used often, it will be relevant in some jurisdictions.

It is likely that the IPSASB will undertake a post-implementation review of IPSAS 42. This will allow the Board to consider preparers' experience of using the standard, and to receive feedback on whether the reporting of social benefits meets users' needs.

IPSAS 42 was published in late January 2019 and will have an effective date of January 1, 2022.

Collective and Individual Services and Emergency Relief

The IPSASB considered draft Exposure Draft (ED) 67, *Collective and Individual Services and Emergency*

Relief, which proposes application guidance to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.* ED 67 proposes that there is no present obligation to beneficiaries for the delivery of collective services such as defense and street lighting, or individual services, such as education and healthcare.

Detailed discussion focused on emergency relief, with the Board distinguishing emergency relief that is an ongoing activity of government, and emergency relief that responds to specific events. ED 67 proposes that no provision for collective or individual services is recognized. Under certain circumstances emergency relief that responds to specific events may give rise to a provision. Entities apply IPSAS 19 in deciding whether to recognize a provision.

The Board approved ED 67, which was published in late January 2019, with a consultation period that runs until May 31, 2019.

Leases

At the December meeting the IPSASB further considered its strategy in light of the response to ED 64, *Leases,* which had been issued in January 2018. A large majority of respondents to ED 64 had supported the proposed approach to lessee accounting, and no major issues had emerged. The response to the proposals on lessor accounting and concessionary leases had been more mixed. While there had been significant support for the proposals a number of respondents raised conceptual and practical reservations.

The IPSASB decided:

(a) To confirm the tentative decision made in September to adopt the lessee accounting requirements in ED 64, *Leases*, subject to decisions on lessor accounting and concessionary leases;

(b) Not to publish lessee accounting requirements based on ED 64 in the near future; and

(c) To create a Task Force to consider all the issues raised by respondents.

Public Sector Measurement

The IPSASB reviewed and modified newly developed application guidance for the following measurement bases historical cost, replacement cost, fair value, and the cost of fulfillment. The IPSASB confirmed that it would issue a Consultation Paper including an outline ED, *Public Sector Measurement*. This will allow constituents to consider the IPSASB's preliminary views on issues such as borrowing costs, transaction costs and fair value and to provide views on the format and structure of the envisaged IPSAS.

Revenue

At its December meeting the IPSASB discussed the approach to transactions with performance obligations and the approach to transactions where the resource provider indicates the period over which the resources are intended to be used.

The IPSASB approved the scope of a draft ED that will provide requirements and guidance for transactions that meet the definitions in, and would be within the scope of, IFRS 15, *Revenue from Contracts with Customers*, and transactions that can be addressed through an extended performance obligation approach known as the Public Sector Performance Obligation Approach. Many of these transactions are tripartite with the ultimate beneficiary being a third party, rather than a counterparty.

The IPSASB also clarified the definition of 'a binding arrangement', which includes, but is not limited to commercial contracts, and considered the terminology in IFRS 15 from a public sector perspective, deciding that the term 'purchaser' should replace 'customer'.

The IPSASB considered three options for accounting for transactions where the resource provider indicates a time period over which the resources are to be used by a resource recipient, (such stipulations have been described as 'time requirements'):

- Enhanced display/disclosure;
- Classifying such transfers as an 'other obligation' of the recipient (an outflow of resources that that should be recognized even though it does not meet the definition of a liability); and
- Recognizing these transfers in net assets/equity and recycling through the statement of financial performance.

The Board made a tentative decision that enforceability is the key factor in determining the accounting treatment. Where transactions are not enforceable revenue is recognized when receivable, and the intentions/expectations of resource providers are communicated via enhanced display and disclosure. The IPSASB also decided to no longer use the term 'time requirements' as it implies misleadingly that transactions with time stipulations are enforceable, when that is often not the case.

Public Sector Specific Financial Instruments

The initial analysis of Public Sector Specific Financial Instruments (PSSFI) developed by its Financial Instruments Task Force. This analysis outlined which instruments meet the definition of a financial instrument in IPSAS 28, *Financial Instruments: Presentation*, for which non-authoritative guidance will be developed, e.g., notes and coins in circulation. Where an asset or liability does not satisfy the definition of a financial instrument (e.g. monetary gold), the Task Force will continue to evaluate the appropriate guidance for development.

Amendments to IPSAS 36, Interests in Associates and Joint Ventures and IPSAS 41, Financial Instruments

The IPSASB discussed the responses to ED 66, *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36, Investments in Associates and Joint Ventures) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41, Financial Instruments)*.

The IPSASB approved the amendments proposed in ED 66 with no significant changes. The IPSASB also agreed to an effective date of January 1, 2022 in order to align with the effective date for IPSAS 41, *Financial Instruments,* which had been issued in August 2018.