1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance

Members

Present: Thomas Müller-Marqués Berger (Chair)
Kathryn Cearns
Anwaruddin Chowdhury
Fabienne Colignon
Paul Gisby
Ahmed Idris
Chai Kim
Neema Kiure-Mssusa
Bill Matthews
Firmansyah Nazaroedin
Sunil Romooah
Karen Sanderson
Frans van Schalk
Luís Viana
Samih Yousef
Rosa Aldea Busquets (European Commission Representative in place of Manfred Kraff)

Apologies: Daniel Boutin
Inge Grässle
Manfred Kraff
Bernard Ndungu
Dorothy Perez
Vivek Ramkumar
The IPSASB CAG Chair, Mr. Müller-Marqués Berger welcomed the members of the IPSASB Consultative Advisory Group (CAG) to Stellenbosch, South Africa for the second meeting of the CAG. The Chair extended thanks to the municipality of Stellenbosch for providing the beautiful meeting space as well as to the South African Treasury for hosting the meeting. The Chair welcomed the many observers to the CAG meeting, with specific thanks to Trix Coetzer, the Chair of the South African Standards Board and Erna Swart, the Chief Executive of the South African Standards Board. The Chair thanked the IPSASB Chair, Ian Carruthers, Deputy Chair, Jeanine Poggiolini and the many IPSASB members and technical advisors for their attendance.

The minutes of the June 20th IPSASB CAG meeting were approved.

The CAG Chair updated the CAG on the membership changes since the inaugural June 2016 meeting noting the following changes approved through the inaugural membership panel:

- Addition of Inge Grässle, Member of the European Parliament, to help provide the important parliamentarian perspective.
- Notice of change of role within the European Commission: Manfred Kraff has moved from his position as the Accounting Officer of the Commission, Directorate-General for Budget, to his new position as Director General of the Internal Audit Service of the European Commission. As Mr. Kraff has been selected because of his experience, the CAG Chair has asked him to serve his term, but noted Mr. Kraff would fill the functional capacity of providing an audit perspective.
- Rosa Aldea Busquets was in attendance to continue to provide the European Commission preparer perspective on a temporary basis until the Mr. Kraff’s successor is appointed. The Chair noted that once the officer was selected, if the individual indicated an interest to join the CAG they would be considered for membership by the membership panel.
- Dorothy Perez was appointed by the inaugural membership panel as the replacement member from the Office of the Comptroller General of Chile, because of the retirement of the previous member Ms. Patricia Arriagada Villouta.

The CAG Chair noted that another prospective member had been approved by the inaugural membership panel, and he was optimistic that they would soon agree to join and be able to help provide the important parliamentarian perspective.

The CAG Chair noted that as per the CAG terms of reference, he had selected two CAG members to join the official membership panel. The Chair thanked Ms. Kirure-Mssusa and Mr. Boutin for agreeing to join the membership panel and believes that both bring an important regional perspective, representing Africa and the Middle East respectively.

The CAG Chair thanked members for their input on topics for the December Agenda. He noted that the agenda items on Public Financial Management (PFM): Needs and Perspectives in the Current
Environment, as well as the IPSASB technical projects on Heritage and Leases, directly addressed views put forward by CAG members. The CAG Chair also noted that the CAG had expressed a desire to discuss more strategic PFM issues. Further, the CAG Chair acknowledged the significantly improved agenda papers and thanked staff for their efforts. The Chair noted that the feedback provided by members at the June meeting, to have agenda papers which are more accessible, focused on public interest issues and targeted specifically at the CAG, had led to more concise, clearer, and better structured agenda papers.

2. Public Financial Management—Needs and Perspectives in the Current Environment

The IPSASB Chair, Mr. Carruthers introduced the session and discussed the definition of public financial management (PFM) and the elements of an effective system based on the CIPFA Whole System Approach.

Mr. Carruthers clarified the IPSASB’s current role and responsibility in the Global PFM landscape, as well as highlighting the many other groups involved in the space. Mr. Carruthers noted that the session was intended to allow the IPSASB to receive input and feedback for consideration, as a first step and lead in to the upcoming strategy and work plan discussions which will begin in 2017.

The IPSASB CAG Chair, Mr. Müller-Marqués Berger thanked Mr. Carruthers for the presentation. Mr. Müller-Marqués Berger noted that this session responded to CAG members’ comments at the June 2016 meeting to engage in more strategic items and those which are not limited to technical accounting, and consider PFM topics. The main discussion points were:

- Key trends in PFM;
- Current users’ PFM needs (in particular those not being met); and
- Barriers to IPSAS implementation as perceived by CAG members.

The CAG members commented as follows:

- Mr. Viana noted that considering the future strategy consultation, broader considerations of how to better present financial statements such as through the use of integrated reporting as well introducing more prospective information as opposed to only historical information, as well as better linkages to budgets, would be useful. Mr. Müller-Marqués Berger noted that in some jurisdictions integrated reporting is being considered, and that this topic was recently discussed at a CIPFA conference.

- Ms. Aldea Busquets noted that integrated reporting was a topic of discussion for the European Commission and that there is a need for more information to be understandable.

- Mr. Matthews noted that in Canada politicians are pushing for greater integration. He also noted that prospective information poses practical difficulties for both auditors and standard setters. Further, Mr. Matthews noted that if the financial statements are too complicated and not understandable. They do not improve transparency, even if prepared on an accrual basis. Mr. Matthews further commented that, in respect to the barriers to adoption, why jurisdictions do not prefer accruals; and why those which choose accrual standards do not adopt IPSAS are two different issues.

- Ms. Colignon noted that France has been on accrual financial standards for a long time, however the accrual financial statements are not well understood by parliament. Therefore, making the information more understandable and accessible may be helpful; for example, producing different types of financial information for different audiences. Also, it might be necessary to consider articulating better accrual accounting and national statistical accounting
on the one hand and accrual accounting and budgetary reporting on the other hand, to ensure users understand the differences in purpose and benefit from the information. Integrated reporting is not widespread in France.

- Ms. Cearns noted that in the UK integrated reporting was being considered and that the public sector may actually be a leader in this area. She noted however, that there is tension between the forward looking nature of integrated reporting and the backward looking nature of accrual accounting statements. Ms. Cearns noted that holding people accountable for what has happened in the past is unpopular and that politicians tend to want to focus the future. Considering users’ needs, Ms. Cearns noted that it is important to ensure that some groups representing citizens can understand the more sophisticated accrual accounting information and explain this to citizens (including the press). Cost is a major barrier to the adoption of accrual accounting. However, in Ms. Cearns’ view a bigger issue is that accrual accounting information, such as accounting for pension liabilities on balance sheet, can be unpopular, because recognition of the significant amounts that are currently unrecognized, would have adverse impacts on the reported financial position.

- Mr. Müller-Marqués Berger noted that the European Public Sector Accounting Standards (EPSAS) project had discussed the issue of how to prepare the public for the outcomes of applying accrual accounting, such as unpopular messages related to bringing large pension liabilities on balance sheet. For example, in Austria it was found that speaking to the media about the basics of accrual accounting (such as, educating on key terms such as net assets/net liabilities and their meaning in a public sector context) in advance of publishing the opening accrual balance sheet was effective in helping with understanding.

- Mr. Gisby noted there is a need for the IPSASB to play a role in emphasizing sustainability of public finances. He also noted there are some big global issues impacting governments around global tax policies. These issues are impacting the tax revenues of governments and the sustainability of funding public services, as well as growing risks of higher structural long-term unemployment as a result of improvements in automation and technology. These issues create a need for a public discussion on how to deal with these challenges. However, to have this discussion a government much first know what its liabilities are, which requires accrual accounting. These are uncomfortable political discussions, but the issues are real.

- Mr. Müller-Marqués Berger, agreed and noted that the IPSASB has a role in promoting transparency to inform better decision making and ensure accountability of those involved in managing public finances.

- Ms. Kim noted that the Asian Development Bank undertook a study on the use of accrual accounting in the region and noted that of 13 countries only two were applying accrual accounting. However, the study did show that most countries were willing to adopt accrual accounting in future. However, there are several challenges, such as the need for trained staff and improved IT systems. Further, it was noted that accrual accounting system conversion costs were a barrier. She also noted that lack of political support was another barrier, along with questions of how accrual accounting fits with other activities, such as budgetary reporting. Ms. Kim thought it would be very helpful for those considering accrual accounting to learn from the experiences of other jurisdictions that had already adopted.

- Mr. Müller-Marqués Berger, noted that since the EPSAS project has started in Europe, countries are increasingly seeking to learn from each other, for example, the government of the Netherlands had visited Portugal to learn about their IPSAS adoption program.
Mr. van Schaik noted that many IPSAS accrual financial statements have now been issued. An open question he raised, was what lessons can we learn from them? He sees a need for post implementation reviews of standards and if they are achieving the objectives? Mr. van Schaik noted that in some instances the financial statements were not of high quality and better oversight of preparers was needed.

Mr. Chowdhury noted that more advocacy was needed, whether that was indirect through events such as the G20 summit, or through organizations such as IFAC, the UN, IMF or World Bank. Mr. Chowdhury also raised an open question as to what provides more value to the stakeholders, integrated reporting or accrual accounting? Should jurisdictions look to apply IPSAS first, then integrated reporting or vice versa, or even move in parallel? In the developing world many countries struggle with the capacity to implement and apply accrual accounting, so other initiatives such as integrated reporting may not be a realistic goal for these countries at this time.

Ms. Kiure-Mssusa noted that key challenges are cost and IT Systems. Further, she noted that some standards are quite difficult to implement, and that more implementation support would be helpful. For example, not all transactions or key issues are addressed in Study 14\(^1\). For example, Study 14 does not provide any guidance on eliminations when consolidating.

Mr. Romooah noted that the main barrier in his jurisdiction is capacity (mainly technical capacity). He also noted that political will is important; if a country is determined and willing, it can overcome barriers and capacity building will follow. He recommends that IPSAS adoption be included in the PEFA\(^2\) Framework. Mr. Müller-Marquès Berger noted it is difficult to make IPSAS mandatory given the sovereign nature of governments. However, he did note that the role of donor organizations such as development banks is important.

Mr. Nazaroedin noted that in Indonesia for example, IPSAS has been adopted, however not in full. How much information should be included is always a big discussion with the auditors.

Ms. Sanderson noted that integrated reporting gets a lot of focus in Australia, as does performance reporting. Much of this discussion is driven by sub-national governments (states). Ms. Sanderson noted that her view is that as standard setters we often do not understand enough about the users of public financial statements. Her view was that we may know who the users are, but not necessarily what they want or need. Further, she noted that parliamentarians value accrual financial statements for stewardship, however, that they do not understand them or use them for decision making. She emphasized that the cost-benefit aspect of accrual accounting information is important. From an accrual accounting technical issue perspective, discount rates, volatility, different types of reporting for smaller entities (less complex requirements for small entities) and what is an entity are all big issues in her jurisdiction. Governments need to consider the complexity of the public sector and where it blurs lines with private sector. From a PFM perspective, risk management and fiscal sustainability are important. Considering barriers to adoption, in her jurisdiction it is important to maintain convergence with IFRS. Differences between public sector accounting standards and IFRS create problems and can be costly, because of the need to align accounting policies to consolidate mixed group entities.

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2. The PEFA Framework is a methodology for assessing public financial management performance.
• Mr. Müller-Marqués Berger noted that in the European Union, the link of governmental accounting standards with IFRS is actually viewed critically by many Member States and that a close link is not helpful to address the public sector specificities.

• Mr. Yousef noted in his jurisdiction they tried to implement everything all at once, but struggled. Therefore, they split entities into groups – companies following IFRS and government entities following IPSAS. Problems with valuation issues were dealt with using transitional arrangements. However, he noted this really only resulted in a delay tackling the valuation issues. In his jurisdiction (Abu Dhabi) accrual IPSAS are now implemented for public sector entities and audited. The central government itself does cash accounting. For the central government consolidated accounts were considered but it was determined that eliminations were quite difficult. Further, the consolidated government includes many companies that users do not associate with the government. So it was decided that the central government really only serves a treasury function for other departments, and cash would provide sufficient information together with the full accrual accounts for all government entities and government controlled corporations.

• Mr. Müller-Marqués Berger noted that management of issues within different areas of the government would need to occur in the department the issue has arisen, therefore, starting with the whole of governments account level may not be the best approach.

• Ms. Cearns noted that the issues can be complex and interrelated. She sees a need to better educate users as well as to strive to make information easier to understand. However, Ms. Cearns cautioned against over-simplification, so that the reporting of transactions no longer reflected their economic substance.

• Ms. Colignon commented in regards to IFRS/IPSAS convergence that in Europe, it is okay to converge with IFRS principles when the transactions are the same. However, the IPSAS focus should be developing public sector accounting principles and guidance for those instances when transactions are different.

• Ms. Cearns noted that there is an ongoing debate in the private sector as well as public sector on how to use dynamic reporting by providing accounting data directly to users. However, she sees a risk that, without training or pre-defined analysis of accounting data, users may not benefit from the availability of such data. For example, currently analysts are provided with data and use models and are qualified to undertake that analysis to make the information meaningful. Raw accounting data provided to users may not be useful, and it might be better to analyze the information in various reports that users can use dynamic reporting to select those reports of interest to them.

• Mr. Mathews noted that Canada has been making such information available for the government’s interim financial reporting, by providing data and various data analyses tools for users. This is still a work in progress and such information is not yet available for annual reporting or for performance reporting.

• Mr. Gisby notes that this has been discussed by FEE. The question when providing core financial information and expanded information and data is what is core data and when does providing too much data result in a lack of consistency.

Mr. Müller-Marqués Berger summarized the session as follows, noting some key themes:

(a) Integrated reporting may be useful, but could possibly be overwhelming if implemented together with IPSAS concurrently;

(b) Need to balance historical vs. prospective information;
(c) Financial reporting information needs to be understandable. However, it is important that the economic substance of transactions is not compromised for understandability;

(d) Focus on users of financial statements is important. However, there may be a need to more fully understand their needs and how those need are best addressed; and

(e) A key barrier to the adoption of IPSAS is the unpopularity of information for politicians. Greater transparency provided through IPSAS financial statements may not be in the best interest of those accountable for decisions in the public sector.

Mr. Carruthers thanked the IPSASB CAG for sharing their perspectives on the questions. He noted that a lot of the discussion focused on adoption and implementation. Mr. Carruthers noted that adoption has moved to a new phase, where public sector entities consider IPSAS the reporting framework they want to move to. Mr. Carruthers noted that the discussions on users’ needs are issues being discussed by others in this space, such as the IASB and its work on the materiality practice statement and work on specific challenging issues such as discount rates. In regards to forward looking information, the IPSASB has published Recommended Practice Guideline 1, Reporting on the Long-term Sustainability of an Entity’s Finances, which does include prospective information. The question of whether this guideline should be considered further and made into a standard at some point is an issue the IPSASB may need to consider as the need for such forward looking information increases. Mr. Carruthers summarized that the public financial management landscape is vast, with many interested organizations involved. Often the issues are interrelated and the organizations need to work in a coordinated manner to develop effective systems and the IPSASB will continue to look for opportunities to enhance its role as a facilitator.

The CAG members comments as follows:

- Mr. Müller-Marqués Berger noted that the IPSASB’s facilitator role with politicians was of particular important and that there is a need to convince policy makers of the importance of the information provided through IPSAS financial statements.

- Mr. Chowdhury noted that empirical evidence of how adoption of IPSAS has resulted in improved financial management and positive outcomes would be useful. For example, if evidence was available showing that adoption of accrual accounting impacted a country’s credit rating, this may be a compelling story for politicians.

- Ms. Sanderson cautioned that there is a risk that promotion of accrual accounting may be viewed as self-promotion.

- Ms. Cearns wondered if having a representative of a credit ratings agency joining the CAG may be beneficial. It might be useful in helping to understand the information they use for ratings purposes as well as considering if information provided by IPSASs would be useful in supporting credit rating assessments and whether these agencies and analysts would do anything different if they had such information. Ms. Cearns again emphasized the importance of educating and engaging with the media to ensure they understand accounting and its importance.

- Mr. Carruthers noted that the on March 6, 2017, the Monday before the IPSASB’s meeting in Washington from March 7-10, a joint outreach event was being held with the IMF focused on public financial management and there is a speaker from a credit ratings agency.

The CAG considered the Work Plan of the IPSASB. Mr. Stanford updated the CAG on the current projects in progress, and provided an overview of any significant changes since the June 2016 CAG meeting.

The CAG members commented as follows:

- Ms. Cearns noted that the IPSASB was considering some really difficult issues. She noted that it would be best if the IPSASB proceeds slowly or even defers some items, to ensure that it gets it right on these challenging topics. Ms. Cearns discussed the potential for overloading constituents with consultations on tough technical topics and noted that it might be possible to stagger response dates to allow different deadlines for each.

- Ms. Sanderson agreed with Ms. Cearns that it was better for the IPSASB to take its time to get things right and noted that the IPSASB may need to prioritize its higher priority projects if considering how to balance various consultations ongoing concurrently on these technical topics.

- Mr. Müller-Marqués Berger noted, based on feedback from European stakeholders, a key issue for the IPSASB was to consider providing more time on consultations to allow for translation of documents for non-native English speaking jurisdictions to consider and respond.

Mr. Stanford presented the report back documents for the Social Benefits, Revenue and Non-Exchange Expenses projects from the CAG discussions in June 2016. It was noted that the transcript of the CAG discussions is used to develop the report back documents for each project, to allow the CAG to see how each point has been considered by the IPSASB. Mr. Müller-Marqués Berger thanked staff for the document and asked the CAG for views on the report back documents.

The CAG members commented as follows:

- CAG members agreed that the documents were useful and members appreciated seeing how their comments were being considered by the IPSASB.

- Mr. Matthews found the report back documents to be useful, and thought it would be useful to highlight instances when a member of the CAG’s advice had not been taken. Mr. Müller-Marqués Berger agreed with this point and that such points should be emphasized.

- Mr. Stanford noted that CAG views are impacting the IPSASB. For example, CAG feedback to develop higher level, more strategic agenda papers was taken on-board. As well, CAG views on projects were fed into the IPSASB discussions.

- Mr. Gunn noted that it would be more straightforward to note if a comment has been accepted or not. However, sometimes the comments impact and influence a project or the IPSASB discussions, as opposed to a more definite outcome in which a comment is either accepted or not. The IPSASB considers the views from CAG discussions communicated through the IPSASB CAG Chair and staff on projects, and then the IPSASB debates the issues and develops consensus views.

- Ms. Cearns found the report back documents useful. She noted that she reviewed some of the IPSASB papers for the December meeting and was quite surprised with the significant amount of progress made since the June meeting.

- Mr. van Schaik found the report back documents quite helpful. He added a suggestion to improve the structure by numbering the comments to make it easier to navigate the document.
4. Public Sector Combinations

Introduction

IPSASB staff member, Paul Mason, introduced the agenda item and outlined the history of the public sector combinations project. The IPSASB initially considered developing two standards on public sector combinations, one covering combinations from exchange transactions and one covering combinations from non-exchange transactions. Exposure Draft (ED) 41, issued in May 2009, was intended to deal with exchange transactions, and was converged with IFRS 3, *Business Combinations*. Subsequently, the IPSASB agreed to address all combinations in a single standard. This wider scope was included in the Consultation Paper (CP), *Public Sector Combinations*, issued in June 2012. The IPSASB considered the responses received from stakeholders. The IPSASB issued ED 60, *Public Sector Combinations*, in January 2016. Stakeholders generally supported the approach in ED 60.

Mr. Mason summarized the IPSASB’s approach to accounting for public sector combinations. The draft IPSAS 40, *Public Sector Combinations*, which was expected to be approved at the IPSASB’s December 2016 meeting, includes the following features:

- Combinations may be amalgamations or acquisitions, unlike IFRS 3, which only includes acquisitions;
- The gaining of control is essential for an acquisition, but is not conclusive;
- Where control is gained, entities also consider the economic substance of the combination;
- The indicators to be taken into account relate to consideration and decision making;
- Amalgamations are accounted for using the modified pooling of interests method; and
- Acquisitions are accounted for using the acquisition method, which follows IFRS 3.

Mr. Müller-Marqués Berger noted that the project was close to completion, and that the question for the CAG was whether the rationale presented was appropriate.

*Issue 1: Do the accounting approaches provide information that meets users’ needs?*

Mr. Mason asked for the CAG members’ views on whether the accounting approaches outlined would provide information that meets users’ needs.

The CAG members commented as follows:

- Ms. Cearns agreed that the approach and the accounting should be suitable and understandable, and that the disclosures would provide relevant information. The question would be whether the boundary between amalgamations and acquisitions is clear and will result in consistent application, or whether entities would seek to manipulate the boundary. This might need to be considered in a post-implementation review. Mr. Müller-Marqués Berger supported these comments.
- Mr. Matthews considered that the standard was clear, but thought that some of the Illustrative Examples muddied the waters a bit. He did not support the disclosure regarding planned acquisitions that was included in the IPSASB’s agenda papers, commenting that this would be too onerous.
- Ms. Colignon questioned how the transferor should account for the loss of an operation in an amalgamation. She considered additional guidance was required on whether this should be treated as a gain or loss through surplus or deficit or through net assets/equity. Ms. Colignon also commented that the “no quantifiable ownership interests” indicator may need to be explored further as a standalone indicator rather than as part of the decision-making process.
• Mr. Gisby commented that transferors and quantifiable ownership interests may be appropriate topics for future work plan discussions.

• Mr. Viana commented that most combinations would be amalgamations, and that it might be helpful to disclose the legal basis of the amalgamation.

• Ms. Aldea Busquets did not support the disclosure of planned combinations because these were often subject to change.

• Ms. Sanderson also did not support the disclosure of planned combinations. She commented that a lot of amalgamations are machinery of government changes. Sometimes it is only a team that moves rather than a whole entity, and therefore there is a question of materiality. Ms. Sanderson also noted that planned combinations may be confidential.

• Mr. Müller-Marqués Berger questioned whether a disclosure about planned combinations might be in the public interest.

• Ms. Sanderson commented that she was not sure that such a disclosure would be in the public interest.

• Ms. Cairns commented that there is difference between combinations that have been announced and those that haven’t. She noted that the accounting for a disposal can be unpalatable as a loss arises because the entity is losing assets for no compensation.

• Mr. Matthews commented that machinery of government changes tend to have low public interest implications. It is often only the employees who are interested, and they would expect to find the relevant information elsewhere, not in the financial statements.

• Ms. Colignon commented that better information could be provided in respect of the transferor, and noted that there were occasions where there was public interest in government reorganizations, for example the reduction in the number of regions in France.

• Ms. Kiure-Mssusa commented that different people had different perspectives on government reorganizations that could not always be addressed in the financial statements.

• Mr. Chowdhury asked about the implications of the use of fair value in acquisition accounting. Mr. Mason explained that, where entities were using the revaluation model, there would be limited changes. However, valuations would be required where entities had previously used the cost model. In a limited number of cases, entities would also need to recognize intangible assets that had not previously been recognized.

• Mr. Müller-Marqués Berger summarized the discussion as being generally supportive of the proposed approach, but noted the concerns regarding the disclosure of planned combinations.

**Issue 2 and 3: Will preparers be able to implement the standard by the effective date; and, are the measurement periods proposed in the draft standard appropriate?**

Mr. Mason presented issues 2 and 3 together, noting that both related to preparers’ ability to implement the proposed standard effectively.

The CAG members commented as follows:

• Ms. Cearns commented that an effective date of January 1, 2019 was appropriate and that no further transitional arrangements were required.

• Ms. Cearns was not convinced that the proposed measurement period of two years for amalgamations was appropriate. Mr. Mason outlined the IPSASB’s discussions at its September 2016 meeting on this issue. Ms. Cearns commented that the issues would be the
same for acquisitions, and that the normal approach should be for a year. She noted that there may be exceptions to this.

- Ms. Sanderson noted that, in the UK, the government had bailed out a number of banks following the financial crisis. Consolidating these would have taken a lot of time, but these were exceptional circumstances. Timeliness of reporting was important, and for this reason the measurement period should be one year.

5. Financial Instruments Update Project

IPSASB staff member, Ross Smith, introduced the agenda item and outlined the history of the financial instruments update project. Mr. Smith noted that the agenda item was meant to respond to the CAG direction to focus papers on public interest issues. He further noted that the focus on the appropriateness of the use of fair value measurement in the public sector stemmed from a comment made during the September 2016 IPSASB meeting by a member, that in his jurisdiction many feel that fair value is not in the public interest for financial instruments accounting. In considering this issue Mr. Smith noted that he had often heard this point made during this project, during the public sector specific financial instruments project, as well as in his past experience with applying financial instruments accounting standards in a private sector context.

Mr. Smith then introduced each concern noted in the paper, followed by a staff analysis and view related to each concern (expressed in bullets following each concern) as follows:

**Concern 1: IPSAS financial instruments standards based on the IASB’s standards (designed for the private sector) and therefore are not appropriate for the public sector;**

- The economic substance is the same for most transactions in both the public and private sectors, and where they are not, the IPSASB has added additional guidance (concessionary loans, financial guarantees issued through non-exchange transactions);
- Financial instruments transactions often occur between the public and private sectors; and
- The IPSASB has a project in process on public sector specific transactions.

**Concern 2: Historical cost is more appropriate for the public sector, because cost to acquire a financial instrument or provide a loan is often more relevant because public sector entities often hold financial instruments to maturity;**

- Financial statements are meant to convey the resources controlled by the entity and claims against those resources;
- Often an incorrect assumption is made that the financial instruments standards only permit fair value; and
- Measurement is based on the classification model which is dependent on the economic substance of the instrument and how it is managed by the entity.

**Concern 3: Fair value measurement is complex;**

- This is a generalization, initial measurement reflects a transaction price, which is not complex;
- The complexity of financial instruments measurement is on a continuum ranging from instruments valued using inputs from an open, active and orderly market (not complex) to those valued using unobservable inputs (more complex). The truly challenging instruments to value are a small proportion of instruments commonly used in the public sector; and
- Those in an entity that buy and sell financial instruments and those involved with risk management functions for financial instruments often have an understanding of their value.
Sometimes those in a financial reporting function are not aware of the work of other functions involved in financial instrument valuation.

**Concern 4: Fair value introduces too much volatility.**

- Financial instruments are contractual rights and/or obligations to future cash flows;
- The nature of the financial instruments and their cash flows make the instruments volatile. The accounting reflects the economic volatility of the instruments and is not an accounting construct;
- The classification model which determines measurement considers the management model of the financial instruments together with the economic nature of the instruments; and
- Volatility should be considered from a risk management perspective.

Mr. Smith summarized the main points related to the concern and noted that a key issue is a lack of appropriate communication. It was noted that communication should be more understandable and accessible and should complement the technical accounting arguments by explaining public interest considerations and the benefits of the accounting principles.

The main discussion points posed to the CAG were:

- Are there any further issues not identified in the analysis in the paper;
- Do the identified concerns give rise to issues with financial instruments accounting in your jurisdiction;
- Do CAG members agree with the staff analysis related to the concerns; and
- Do CAG members agree with the staff view that the measurement provisions proposed in the ED provide relevant information for accountability and decision-making purposes and are therefore in the public interest?

The CAG members commented as follows:

- Ms. Cearns agreed with staff views expressed in the paper and presentation. She emphasized that education is an important issue. She thought it would be helpful if derivatives were discussed on their own, with an explanation as to why cost is not appropriate and does not provide sufficient information. She further emphasized the importance of continuing to message that complexity relates to the instruments themselves and is not an accounting construct.

- Mr. Gisby agreed with the points of Ms. Cearns. Elaborating his view, he noted that if the instrument is volatile, that should be reflected in the financial statements. He further commented that the education aspect is not just a public sector issue. The European Union parliament discussions around the endorsement of IFRS 9 demonstrated that there is a lack of understanding overall of financial instruments.

- Mr. Matthews notes that education is important, however, the IPSASB should be cautious to not be seen as arrogant. He stressed it is important to understand users’ needs, as well as to explain financial instruments themselves more generally rather than education initiatives on various accounting issues such as fair value measurement. Education based on types of financial instruments may change the behaviour of entities entering into financial instruments transactions.

- Ms. Kim agreed with the previous comments. However, she noted that recognition and measurement of financial assets and financial liabilities have different requirements. Therefore, her view is that one of the arguments expressed in the staff paper (that the private sector is often a counter-party to public sector financial instruments transactions and the requirements should therefore be consistent) is not compelling. She noted that measurement of level 3
instruments causes the most difficulty. She noted that US GAAP provides a practical exemption for level 3 equity instruments which might be worth considering if it has not been already.

- Mr. Müller-Marqués Berger questioned whether the volatility is caused by the measurement model or is rather a result of the instrument’s characteristics? The measurement approach should try to reflect the economics of the instrument.

- Ms. Kim noted that volatility of the instrument may impact the accounts when a hedge transaction is undertaken by an entity, but the entity does not apply optional hedge accounting.

- Mr. Romooah noted that fair value is better than cost in many cases, but complex. It is his feeling that preparers should be given a choice.

- Ms. Colignon agreed that financial instruments are complex. She noted that in her jurisdiction there are concerns with the use of fair value. Public sector considerations need to be taken into account; for instance, in her jurisdiction, speculation is not an activity of public sector entities. The specificities of the public sector need to be captured to address the information needs of users and to gain some buy-in of the principles set out (for instance through a relevant design for the structure of the actual standard).

- Mr. Müller-Marqués Berger noted in Germany, public sector entities are not allowed to enter into speculative instruments. However, in practice, some entities do enter into such financial instruments transactions, because they do not appropriately understand the risks involved.

- Mr. Viana noted that his view is that fair value should not be stretched to the point where it is not accepted. He asked if examples for category C transactions noted in the agenda paper were being developed. Mr. Smith noted that the IPSASB meeting agenda papers include the detailed discussions of technical issues, and the CAG session is meant to cover the higher level public interest issues. He noted that detailed public sector examples, including those which are category C transactions in the CAG paper were being developed.

- Mr. Yousef noted that in his view the principles in the IFRS financial instruments standards should be followed as closely as possible. He further noted that if the public sector should not undertake specific transactions (such as speculative transactions), then laws or regulations should be used to ensure they are not allowed to transact.

- Ms. Aldea Busquets noted that the European Union is using more and more financial instruments to leverage private investment. In her view the accounting between the public sector and private sector should be harmonized further, as it is quite difficult to have different bases for the private and public sectors. She supported the proposals in the paper, but questioned if some exceptions are needed; for example when there is no market. Further, she noted that disclosures for financial instruments can be very complex, and wondered if there could be a more focused disclosure approach.

- Ms. Sanderson noted that fair value is an important issue in her jurisdiction. For example, if invested in a fund, it is important to know the fair value, in case those resources are needed. She agreed that disclosures are long and complex, and compliance focused. She believed a consideration of users’ information needs would be a better focus and would make the disclosures more useful and accessible.

- Mr. Chodhury asked a question as to how a public sector bank would account for an open ended mutual fund, and how fair value would be measured?

- Ms. Cearns responded that it would be in the same manner as private sector mutual funds. Ms. Cearns noted that financial statements are issued at a point in time, but such mutual funds monitor the fair value of the investments contained in the fund almost daily, as members join
the fund and sell their investment in the fund. These types of mutual funds are generally valued on the basis of the value of the underlying investments. Ms. Cearns also noted that if a public sector entity holds an instrument, it must have some idea of the value, otherwise how is it appropriately managing the instruments.

- Ms. Cearns further noted that IFRS 9 was a principles-based standard. She noted that exceptions to the principles are a big problem and therefore does not support introducing exceptions. She emphasized that based on her experience, she struggled with the argument that coming up with fair value of some public sector financial instruments is not possible. It may be a challenge to come up with a fair value, but how can an entity manage the financial instrument if it cannot determine a value for it.

- Mr. Viana noted that fair value is more subjective in his view than historical cost.

- Mr. van Schaik noted he is fully supportive of using fair value to measure financial instruments. However, he did note that this may be a barrier to adoption in some jurisdictions, for example, in the European Union, concessionary loans have been provided to certain countries because of the sovereign debt crisis. If IPSAS concessionary loan accounting was applied to the loans provided as a result of the sovereign debt crisis, it would show the subsidies provided from the northern countries to the southern countries, which might not be acceptable from a political point of view.

- Mr. Müller-Marqués Berger summarized the CAG views and that measurement needs to reflect the complexity and volatility of the financial instrument. Education needs to start with the financial instrument themselves. The IPSASB needs to continue to work to communicate that financial instruments do not indiscriminately require fair value.

Mr. Smith thanked the CAG for providing their views. He noted that it was quite interesting watching the CAG consider the measurement issues from their various perspectives. The IPSASB has agreed to follow the principles consistent with IFRS 9, for the reasons noted by Ms. Cearns during this discussion—that if you start introducing exceptions to the principles, the principles no longer work. The IPSASB has agreed to supplement the standard with detailed specific public sector examples to help with application. Further, the IPSASB has agreed to a more robust education and communication strategy to support the issuance of the ED.

6. Heritage

The IPSASB staff member, Gwenda Jensen, introduced the agenda item and posed two broad questions related to heritage to the CAG:

- Whether information on heritage is in the public interest; and
- What type of information on heritage should be reported?

The CAG also noted that the IPSASB’s heritage project, applying the UNESCO developed international conventions on heritage protection, is considering the following categories of heritage:

- Cultural heritage, including tangible and intangible cultural heritage; and
- Natural heritage.

The CAG members commented as follows:

- Mr. Gisby noted that governments’ expenditure on heritage preservation is in competition with other priorities (e.g. social benefits) and the public needs to know the costs so that they can consider those in the context of those other priorities.
• Mr. Romooah emphasized the importance of providing heritage information; however, he was unsure what information exactly was needed. He questioned whether recognition in the financial statements is required to ensure heritage items are appropriately managed. Mr. Romooah noted that a consideration of the obligations arising for governments from heritage items was important, as well as considering the extent to which such items generate revenue. Mr. Müller-Marqués Berger noted that heritage items could be captured in a separate report outside the financial statements.

• Mr. Idris noted that it is important to provide information about heritage items. Given they are public assets, there is a duty to provide transparent information on maintenance costs, as well as the revenue generated by them.

• Mr. Chowdhury noted it is in the public interest to provide information on heritage items; however, he noted that valuation of such items will be a challenge, and is likely to depend on the particular asset. He considered that the most important information relates to the public sector entity’s ability to maintain and preserve the items. Further, information on future costs to preserve and maintain heritage items is important. For example, how do you value something like the Bengal tiger, and what are the future costs to ensure its preservation as a species?

• Ms. Kiure-Mssusa agreed that heritage information is needed. She said that in her jurisdiction for example, there is the question of whether elephants should be considered heritage items, and if so how should they be recognized and what the appropriate valuation method is. Is control of the animals one of the key factors related to recognition?

• Mr. Viana believed that, it would be appropriate to recognize heritage items either in the notes to the financial statements or in a separate report. Mr. Viana questioned what the impact on the financial ratios of public sector entities of recognizing large heritage assets on the balance sheet would be. He questioned if the ratios would still provide any meaningful information.

• Ms. Cearns highlighted that there is a boundary issue and definition overlap to consider. For example, when considering some of the animal examples discussed, what is the boundary between items that are considered heritage and those considered biological assets. There is also an issue of determining the difference between maintenance expenses and capital improvements for certain heritage items.

• Ms. Sanderson noted that heritage should be recognized on the balance sheet, and that these items can often be valued. She noted it is in the public interest to recognize such items mainly for stewardship and performance monitoring. Ms. Sanderson believes the issue of maintenance expenses needs to be considered more holistically with other valuation issues. For example, why is maintenance of heritage more important or different than other types of assets that require maintenance (e.g., roads)? Ms. Sanderson is not yet convinced that heritage requires a separate standard, while acknowledging that discussion in some sort of financial report would be a good practice and useful.

• Mr. Carruthers said that a key question is what should be in the financial statements and what should be in other reports outside the financial statements.

• Mr. Gisby noted in his view there is fundamentally no difference between heritage assets and other assets, except for the emotional aspect.

• Mr. Stanford noted that, from a measurement perspective, there is an issue whether such assets should be depreciated if they have an indefinite life, as well as the appropriate method for impairing them.
• Mr. Carruthers noted that the IPSASB CP under development is looking to raise issues for consideration by constituents. He noted that the IPSASB has no commitment to a particular type of pronouncement at this stage of the project. Depending on the responses received, the IPSASB will consider the way forward, with input from the CAG.

• Mr. van Schaik agreed that heritage assets are very similar to other assets, but in his view that should not prohibit additional guidance.

• Mr. Yousef noted that there are not a lot of heritage assets in Abu Dhabi, his jurisdiction. In his view, there needs to be a boundary identified, and it would seem that if heritage items may overlap with existing standards, the information may not enhance the financial statements. He further noted that comparability is an important qualitative characteristic in the IPSASB’s Conceptual Framework, however, he questioned whether comparability is possible given the unique nature of heritage items. Therefore, in his view reporting on heritage be in a report outside the financial statements.

• Ms. Cearns noted that some heritage assets are unique, so there are no assets to compare them with. A, a measurement objective would help with valuation of these unique items.

Mr. Müller-Marqués Berger summarized the discussion. He noted that the CAG seemed to have a common view that recognition of heritage items is in the public interest. However, he noted that there were different views as to whether a heritage standard is required or if such items can be dealt with in existing standards. Others raised views that heritage preservation might be better served by reporting outside of the financial statements. The CAG also indicated that comparability is important, as is determining the appropriate measurement approach. Reflecting on the CAG comments, Ms. Jensen noted that reporting on heritage should also capture information on the use of resources and maintenance costs. Further, consideration of biological assets and the extent to which they can be controlled, as well as tangible and intangible assets are important issues. Additionally the CAG noted it may be helpful to understand which heritage items are being used commercially or operationally.

7. Leases

IPSASB staff member, João Fonseca introduced the agenda item and gave a presentation outlining some key public interest issues related to the IPSASB’s project on Leases.

Issue 1: Does the non-recognition of the underlying asset by either the lessee or by the lessor, and the non-recognition of the lease receivable by the lessor meet the users’ needs of public sector financial reporting?
The CAG members commented as follows:

- Ms. Cearns sought clarification whether the question was asking about asymmetry? In her view symmetry may not be needed. She further noted that this issue exists in the private sector as well. Ms. Cearns noted that the IASB took a pragmatic approach and the problem they were looking to fix was related to lessee accounting. Further, the IASB did not believe they would be able to develop a solution in a reasonable amount of time in relation to lessor accounting, and did not want to delay adoption of the improved lessee accounting requirements, which was the key issue.

- Ms. Cearns noted that if one of the main drivers of the IPSASB approach is consistency with IPSAS 32, *Service Concession Arrangements*, this may lead to scope creep for the project, as the IPSASB may need to consider the impact of a new lessor accounting model on IPSAS 32.

- Ms. Sanderson highlighted a need to consider if IPSAS 32 is conceptually consistent with IFRS 16, *Leases*.

- Mr. Viana noted that the treatment of the underlying asset is an important issue. In his opinion the asset should be recognized on the balance sheet. Service concession arrangements deal with “orphan” assets, those that have not been recognized anywhere. Is the recognition of the underlying asset being re-visited in this same context as IPSAS 32? Another issue relates to consolidation. If the lessor accounting is not symmetric, you then have consolidation differences.

- Mr. Viana asked what the planned approach is for the treatment of grants/donations (concessions) in leasing contracts? It was noted that this issue is still being considered by the IPSASB and a decision has not yet been made.

- Ms. Colignon noted that applying an approach drawn from IFRS 16 would result in the underlying asset not appearing in the balance sheet of either the lessor or lessee in some cases, and expressed a view that this would give rise to a public interest concern.

- Mr. van Schaik recommended that the IPSASB develop an IPSAS drawn from IFRS 16 in the interim and continue work on the lessor accounting issue, because it may take a significant amount of time to develop an appropriate lessor accounting model given the experiences and challenges the IASB faced. Mr. Carruthers acknowledged this issue. However, he noted that the plan at this time is to propose a lessor accounting model in the upcoming ED.

- Mr. Yousef wondered how transactions between public sector and private sector would be treated and if it is important to have similar treatments. Mr. Fonseca noted that the IPSASB is in agreement that the economics of a lease is the same in both sectors. The issue is that IFRS 16 lessor guidance does not reflect the economics of the lease (as the IASB has acknowledged).

- Ms. Sanderson noted that the impact on the complexity of consolidation should not be underestimated. There are many different lease arrangements in the public sector. She questioned if this is an issue where you can consider the public and the private sectors separately.

- Ms. Cearns noted that private sector leasing companies are already offering new lease products for the public sector. She wondered if the IPSASB developed a useful lessor accounting model, would that drive the private sector to reconsider the guidance in IFRS 16.

- Mr. Matthews shared his view that leases are the same in the public or private sector. However, he expressed a view that this does not mean that the IPSASB should follow the private sector
blindly. He further noted that explaining the technical aspects of lease accounting to the Canadian Public Accounts Committee might be a challenge.

- Mr. Müller-Marqués Berger summarized some key points:
  - The underlying asset needs to be recognized in the financial statements;
  - Lease accounting is an area where constituents such as parliamentarians may struggle with the technical accounting.

- Ms. Cearns recommended that the options explored by the IASB for lessor accounting be considered. Her view is that accounting for the underlying asset issue is clear cut. There is a need to consider what information the lessor should provide and should that consideration be in isolation or in the context of lessee accounting. Mr. Müller-Marqués Berger noted that, if an alternative variant of the grant of a right of use model is adopted an entity would no longer recognize a physical asset but a new right of use asset.

**Issue 2: Does accounting treatment for the subsidized portion of a lease, in the same manner as a concessionary loan, meet the user’s needs of public sector financial reporting?**

The CAG members commented as follows:

- Ms. Colignon noted that from a user’s perspective it might be difficult to communicate something on the balance sheet that does not reflect a cash flow. This is because showing an expense of public money in the lessor’s financial statements that is not otherwise financed is challenging to explain to citizens.

- Mr. Carruthers noted he debate on concessionary loans in the United Kingdom. Any concession built into a loan, should on initial recognition be an upfront expense for the grantor because the economic impact of that concession needs to be reflected. There is a real cost related to the decision to provide a concessionary loan and that decision should be reflected in the financial statements. The issues related to concessionary loans and concessionary leases appear similar.

- Mr. Müller-Marqués Berger also noted that consistency with the IPSAS 23 treatment for the recipient of the concessionary loans should be considered for concessionary leases.

**Issue 3: What other types of activities the IPSASB could initiate to best reach out to its constituents?**

The CAG members commented as follows:

- Ms. Cearns noted that the private sector leasing industry should be considered in any discussions and outreach. She noted that these organizations have strong views on this issue and it is better to engage them as the project is developing. Further, it may also encourage the private sector to act on this issue in a more proactive manner. It may also be worthwhile to communicate with the IASB on this issue.

- Mr. Gunn noted that it is important that a communications strategy be developed. There may be differing concerns and points of resistance for different constituents.

- Mr. Matthews agreed that engaging with the private sector is important. He also noted that for the communications strategy, understandable and accessible language could be helpful. Unlike financial instruments where many view issues as highly specialized, many feel comfortable and willing to engage on lease issues.

- Ms. Sanderson noted that it is a great opportunity for outreach, because many jurisdictions are in the process of implementing IFRS 16 already. She also agrees it is important to engage with the private sector.
• Mr. Gisby noted that there had been a lively debate at the European Parliament when the endorsement of IFRS 16 had been discussed.

• Mr. Müller-Marqués Berger summarized the CAG’s discussions as follows:
  o The CAG agreed that leases were the same in the public and private sectors, but agreed that the IPSASB should still explore different lessor accounting;
  o The CAG supported the IPSASB’s approach to lessee accounting;
  o The CAG supported the approach to concessionary leases; and
  o The CAG supported a plain language communications strategy.

8. Closing Remarks

Mr. Müller-Marqués Berger found the discussions during the meeting to be to be highly engaging, focused at the right level and an improvement on the good discussions the CAG had at the June 2016 meeting. Mr. Müller-Marqués Berger noted that this successful meeting can be attributed to the hard work of CAG members in preparing for the meeting and their strong engagement in the discussions during the sessions. Mr. Müller-Marqués Berger thanked staff for the improved agenda papers, noting he found they provided the right level of detail and focused on public interest issues, as requested by the CAG members at the last meeting. He noted that drafting papers focused on public interest is a challenge for accountants and in particular standard setters, as there is a pull to the technical accounting “comfort zone”. Mr. Müller-Marqués Berger highlighted and summarized a few key points:

• The session on Public Financial Management—Needs and Perspectives in the Current Environment was a big success. It was clear that the CAG could have spent the entire morning on this session. He further noted that this is the first session on these broader PFM issues and discussion will continue building off this initial discussion.

• The report back discussion on Social Benefits and the Revenue and Non-exchange Expenses projects was useful. It highlighted to the CAG that the impact of the discussion can already be evidenced in the IPSASB’s meeting papers and projects. These documents and discussions were very helpful.

• Some summary points on the technical projects discussed were:
  o Financial Instruments Update Project—Noting that discussions on financial instruments can often be very boring, he specially thanked staff for the excellent paper, which led to very interesting discussions. The discussion on financial instruments had definitely not been boring.
  o Public Sector Combinations—the project was at a late phase of its life cycle, with the IPSASB aiming to approve the standard at the December 2016 meeting. However, the CAG still provided useful thoughts and ideas for IPSASB and staff consideration.
  o Heritage and Leases—Both topics were items of interest to CAG members. The discussions on both projects were very rich with strong feedback provided for consideration in the development of the respective projects.

The CAG members commented as follows:

• Ms. Sanderson echoed the Chair’s comment on the papers, noting the quality was excellent and the questions posed to the CAG were stimulating and promoted thought. In her view, the papers and the CAG discussions are continuing in the right direction.

• Ms. Cearns also supported the comments on the quality of the papers and discussions. She did want to raise the issue of discount rates as an important topic in a public sector context and noted that the IASB is looking at this topic and similar public sector discussions were needed.
Mr. Carruthers noted that the CAG had provided very useful input for the IPSASB to consider on a number of items. In particular, the discussion on public financial management, was very useful and enriching and would feed into the IPSASB’s next strategy and work plan consultation process which would begin in 2017 and which is likely to be a discussion topic at the June 2017 CAG meeting. Further, Mr. Carruthers noted that the June 2016 CAG discussion had influenced the IPSASB’s work and had been very constructive. He also noted that he welcomed those CAG members who planned to attend the IPSASB meeting.