

Government Business Enterprises (GBEs)

Agenda Item 5

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Objective of session

The objective of the session is to consider Agenda Paper 5.1 and for the IPSASB to decide which of four options in the paper relating to the definition should be pursued.

Materials Presented:

- 5.1 Issues paper
- 5.2 Extract from PSASB Handbook 2000 and PSC Guideline 1

Background/introduction (paragraphs 1-3)

In March 2013, IPSASB had a brief discussion on GBEs.

Staff were asked to:

- Explore historical rationale for definition
- Consider whether definition needed
- Consider whether an objectives focused definition better
- Further analyse the GFS definition and differences (these will be addressed later, along with non-financial reporting)

History of the GBE definition (paragraphs 4-13)

- Definition and guideline PSC July 1989
- Rationale part level playing field; part efficiency
- Private sector and public sector entities should adopt same reporting standards
- PSC/IPSASB to focus resources on non-business oriented public sector entities
- Public sector GBEs might also report on non financial performance including social policy objectives
- Consolidation of controlled entities using IPSASs introduced May 2000 (IPSAS 6)

Issues with the current definition (paragraphs 14-22)

Changes may be necessary to address issues raised:

- (a) Including full cost recovery entities;
- (b) Not being reliant on continued government funding;
- (c) Clarity in interpreting the definition;
- (d) Whether control criterion is appropriate; and
- (e) Whether a definition based on services/objectives is better.

Types of controlled entities (paragraphs 23-27)

Wide spectrum:

- From profit-oriented entities which seek to make a commercial return, and pay regular dividends to shareholders
- To entities which exist to provide public services using only funds provided by government

In between, gray area with variety of other types of entities

- Some operating on a full cost recovery basis
- Partly commercial, partly community benefit objectives
- Some with government subsidy for shortfall and/or to subsidise rural/low income consumers

What are the options for approaching this project? (paragraph 28)

Staff have identified four options:

1. Do not specifically define GBEs;
2. Clarify the existing definition so that it is easier to apply;
3. Narrow the existing definition; or
4. Redefine GBEs using a different approach (e.g. based on services or objectives).

Option 1: Do not define GBEs (paragraphs 29-36)

- IASB prescribes that IFRSs are intended for ``profit-oriented entities`` (undefined)
- IPSASB could describe types of entities standards are intended to apply to, adding profit-oriented entities would be expected to apply IFRSs in own financial statements
- Individual jurisdictions to decide which entities apply IFRSs would avoid difficulty of a GBE definition suitable globally.
- Drawback is service performance information
- Main problem likely to be lack of consistency and comparability

Option 2: Clarify the existing definition (paragraphs 37-41)

- Diversity in terminology and practices may mean different interpretations of current definition.
- Meaning of full cost recovery
- Meaning of continued government funding
- Is control criterion needed

Option 3: Narrow the existing definition (paragraphs 42-43)

- Reduce diversity with fewer types of controlled entities meeting definition
- Include only profit-oriented businesses with no form of government support
- Eliminate entities with full cost recovery objectives

Option 4: Redefine GBEs using a different approach (paragraphs 44-47)

- Definition based on services/objectives of controlled entity
- More fundamental approach
- Only truly profit driven entities would be GBEs
- Entities which provide social services /receive subsidies would not be GBEs
- Would involve CP (other options could go straight to ED)
- Do problems with current definition warrant a fresh start approach

Summary (paragraphs 48-49)

Staff considers the IPSASB should consider:

- The broad range of issues relating to the definition of a GBE including a discussion of the types of controlled entities for which IFRSs are appropriate and characteristics of such entities
- Whether the IPSASB wants to continue to define GBEs, and scope out a specific group of controlled entities that should apply IFRSs

Matter(s) for consideration (page 9)

The IPSASB is asked to decide which of the following four options should be pursued:

- 1- Do not specifically define GBEs;
- 2- Clarify the existing definition so that it is easier to apply;
- 3- Narrow the existing definition; or
- 4- Redefine GBEs using a different approach (e.g. based on services or objectives).

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