

## PROJECT HISTORY

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### December 2014

The IPSASB had agreed at its September 2014 meeting that the proposed IPSAS on *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* should incorporate the transitional exemptions and provisions from the IPSASs based on the proposed Exposure Drafts on *Separate Financial Statements, Consolidated Financial Statements, Investments in Associates and Joint Ventures, Joint Arrangements and Disclosure of Interests in Other Entities* (ED 48 to ED 52) as these pronouncements are likely to be issued at the same time. At this meeting, the IPSASB considered the proposed transitional exemptions and provisions to replace the exemptions and provisions in IPSAS 6 *Consolidated Financial Statements*, IPSAS 7 *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures*, and agreed with the wording proposed.

The IPSASB then conducted a page-by page review of the proposed IPSAS that included all the amendments agreed at the September 2014 meeting. Following this review, the IPSASB agreed to clarify the objective paragraph, explain the preparation of a first-time adopter's first transitional and first IPSAS financial statements in relation to the date of adoption and delete certain explanatory paragraphs that duplicated some of the principles in the proposed IPSASs. Some editorial comment was also noted.

Subject to the amendments agreed, the IPSASB approved the proposed IPSAS as a final pronouncement. IPSAS 33, *First-time Adoption of Accrual Basis IPSASs* is likely to be published early in 2015.

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### September 2014

The IPSASB considered two remaining issues as agreed at its June 2014 meeting – the first relating to providing transitional relief for the initial recognition and/or measurement of a first-time adopter's interests in other entities, and the second relating to whether an exemption should be provided from the preparation of consolidated financial statements where the first-time adopter has elected to adopt one or more of the transitional exemption and provisions that allows it to not eliminate certain transactions, balances, revenue and expenses for a period of three years following its adoption of accrual basis IPSASs.

With regards to providing transitional relief for the initial recognition and/or measurement of interests in other entities, the IPSASB agreed that similar relief to that provided for the initial recognition and/or measurement of financial assets should be provided to a first-time adopter to allow it sufficient time to gather the necessary information to classify its interests in other entities as either an investment in controlled entities, a joint venture, an associate, or another investment as on the date of adoption.

This also impacted on decision taken on the second matter. In deciding whether relief should be provided from preparing consolidated financial statements in certain instances, where a first-time adopter has elected to apply the exemption to not eliminate one, or more inter-entity balances, transactions, revenue and expenses, and/or where it elects to apply relief for recognition and/or measurement of interest in other entities, the first-time adopter it cannot present financial statements as consolidated financial statements until the inter-entity balances, transactions, revenue and expenses have been eliminated, and/or the

interest in the investment has been recognized and/or measured appropriately. The IPSASB agreed that this exemption should be clarified in the proposed IPSAS, along with disclosure requirements that will explain to the users of the financial statements why financial statements could not be presented as consolidated financial statements.

In addition to these two matters, the IPSASB also considered and debated an illustrative draft of a revised classification of transitional exemptions and provisions between those that a first-time adopter may be elect, and those that a first-time adopter are required to apply on the adoption of accrual basis IPSASs.

The IPSASB agreed to retain the format used in the Exposure Draft. An Appendix will however be included as part of the final pronouncement that summarizes which transitional exemptions and provisions should be applied and which may be applied, along with an indication of the impact that these transitional exemptions and provisions will have on the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs. The Implementation guidance will also reviewed in providing further clarification in this regard.

The IPSASB also considered the first draft of the proposed IPSAS on *First-time Adoption of Accrual Basis IPSASs* that incorporated the decisions taken by the IPSASB at the June 2014 meeting. In addition to agreeing to certain editorial amendments, the IPSASB agreed that the scope section should be clarified to explain that during the transition to accrual basis IPSASs, a first-time adopter needs to consider the requirements in this IPSASs, but when the transitional period is complete, the requirements in all the other accrual basis IPSASs should be applied before assessing compliance with accrual basis IPSASs.

Certain clarifications around when an asset should be assessed for impairment, i.e. not only on the date that the asset is recognized and/or measured but also when the transitional exemptions and provisions that provided the three relief have expired, was agreed.

In considering whether additional implementation guidance are needed, the IPSASB confirmed that the additional guidance included on the basis of preparation, the illustration of the reconciliation where material adjustments were made to the opening accumulated surplus and deficit and the note on the adoption of accrual basis IPSASs that explains the extent to which the first-time adopter has taken advantage of the transitional exemptions and provisions, where appropriate.

For the December 2014 meeting, staff will prepare the second draft of the proposed IPSAS for the IPSASB's consideration. The revised draft will also include the proposed transitional exemptions and provisions that relates to the recently issued Exposure Drafts that deals with interests in other entities that are likely to be approve with, or shortly after this proposed IPSAS. The proposed IPSAS is likely to be approved at the December 2014 meeting as final IPSAS pronouncement.

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## June 2014

The IPSASB considered an analysis of the [responses to ED 53](#) *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)*. The majority of the respondents supported the development of an IPSAS pronouncement and were of the view that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs. The IPSASB did, however, debate whether the Board can do more to assist preparers in their transition to accrual basis IPSASs. Proposals on how this can be achieved within its mandate will be considered and further debated by the IPSASB at future meetings.

Respondents also supported the differentiation between those transitional exemptions and provisions that affect fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs,

and those that do not. The IPSASB agreed to consider an illustrative draft of a different categorization between voluntary and mandatory transitional exemptions and provisions that will be prepared by staff for the September 2014 meeting.

The IPSASB also agreed to clarify that a first-time adopter should apply judgement to assess to what extent the adopted transitional exemptions and provisions affect fair presentation and the ability to assert compliance in relation to the financial statements as a whole.

The IPSASB noted the various views on providing a relief period of three years. After some consideration, the IPSASB agreed that the three year relief period should be retained as it is more manageable and will reduce the period over which a first-time adopter cannot claim compliance with accrual basis IPSASs. It was also agreed that the pronouncement should clarify and explain the difference between the preparation phase that is needed prior to the transition to accrual basis IPSASs, and the relief period that is provided to assist a first-time adopter with its transition to accrual basis IPSASs. The IPSASB confirmed that the relief period provided in the proposed IPSAS should not be seen as a complete roadmap for the adoption of accrual basis IPSASs, but rather the end stage of the accrual basis IPSAS adoption that follows the preparation phase.

The IPSASB also agreed with the proposal that a three year relief period should be provided for the recognition and/or measurement of inventory to allow a first-time adopter sufficient time to appropriately identify and classify its inventory, such as land, military and health equipment. In addition, the IPSASB also agreed to allow a first-time adopter to change its accounting policy in respect of its assets on a class-by-class basis during the transitional period.

With regards to considerations around a first-time adopter's interests in controlled entities, joint ventures and associates, the IPSASB debated whether a three year relief period should be provided to allow a first-time adopter to appropriately identify its interests in these entities following the adoption of accrual basis IPSASs. Some members were of the view that relief should be provided to align the exemptions provided for interests in other entities with the exemptions for financial instruments. Other members were of the view that such alignment is not needed as a first-time adopter should understand its interests in other entities prior to its adoption of accrual basis IPSASs.

The IPSASB also debated whether relief should be provided from preparing consolidated financial statements, specifically where the first-time adopter has elected to take advantage of the relief to not eliminate inter-entity balances, transactions, revenue and expenses between entities within the economic entity. It was agreed that staff should do more work in proposing the relief that should be provided on the identification and classification of a first-time adopter's interests in other entities and whether an exemption should be allowed on preparing consolidated financial statements. These considerations will be considered by the IPSASB at its September 2014 meeting.

The IPSASB supported the comment around the classification on lease arrangements on the date of adoption. The proposed IPSAS will clarify that where changes have been made to lease agreements between the date of the lease inception and the date of adoption of accrual basis IPSASs, this need to be taken into account in classifying the lease on the date of adoption of accrual basis IPSASs.

The IPSASB also agreed that additional Implementation guidance should be included to illustrate certain elements of the transitional IPSAS financial statements, such as the wording to be used for the basis of preparation, and reconciliations that are prepared during the transitional period.

The IPSASB agreed to not exclude the disclosure of information about key management from the exemption that provides relief from the related party disclosure. It was also agreed that exemption should not be provided from presenting a cash flow statement during the period of transition as users still need

information during the transitional period on a) the sources of cash inflows, (b) the items on which cash was expensed during the reporting period and (c) the cash balance as at the end of the reporting period.

Minor amendments have also been made to clarify the presentation of comparative information and in clarifying some of the definitions to be included in the proposed IPSAS.

In summary, the IPSASB will consider and debate a different classification of the transitional exemptions and provisions between voluntarily and mandatory requirements. The IPSASB will also reconsider the transitional relief provided to a first-time adopter on interest in other entities.

Staff will also prepare a first draft of the proposed IPSAS for the IPSASB's consideration, taking into account the matters agreed at this meeting.

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### **September 2013**

The IPSASB debated four matters impacting the finalization of the proposed Exposure Draft. These included, amongst others, the interaction between the asset related IPSASs and IPSAS 5 *Borrowing Costs* where a first-time adopter has taken advantage of the transitional exemption not to recognize assets for a period of three years, allowing a first-time adopter to apply deemed cost to financial instruments on initial adoption of accrual basis IPSASs, and re-considering a previous decision that not presenting a segment report for three years, will not affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs.

The IPSASB then reviewed the revised proposed Exposure Draft. Various amendments were agreed, including, amongst others, that the terms "first IPSAS financial statements" and "transitional IPSAS financial statements" should be defined and used in the Exposure Draft, and that the principle proposed for the recognition and/or measurement of non-monetary assets and/or liabilities should also be applied to the recognition and/or measurement of monetary assets. The IPSASB also agreed that a transitional provision paragraph should be included in providing guidance to a first-time adopter that has taken advantage of existing transitional exemptions in other accrual basis IPSASs on adoption of accrual basis IPSASs.

The IPSASB further agreed that respondents' views should be requested on more general matters, such as whether the three year relief period allowed for the recognition and/or measurement of specific assets and/or liabilities are appropriate, and whether they support the differentiation between transitional exemptions that do not affect fair presentation and a first-time adopter's ability to assert compliance with accrual basis IPSASs, and those transitional exemptions that do affect fair presentation and a first-time adopter's ability to assert compliance with accrual basis IPSASs.

Subject to these amendments, the IPSASB approved that the proposed Exposure Draft should be issued for comment.

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### **June 2013**

The IPSASB discussed an analysis of the transitional accounting issues related to IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29 *Financial Instruments: Recognition and Measurement* and IPSAS 30 *Financial Instruments: Disclosure* and provided direction to the staff on various aspects. The IPSASB agreed that a three year relief period should be provided for the recognition of financial instruments that have not previously been recognized by entities, and three years for the measurement of financial instruments that have been previously recognized by entities.

The IPSASB also debated various overarching issues that impact the finalization of the proposed Exposure Draft. These included, among others, that a first-time adopter should only be allowed to apply the deemed cost provisions when information about the historical cost of the asset is not available on the date of adopting accrual basis IPSASs. The IPSASB also debated at what point in time a first-time adopter should determine deemed cost where it takes advantage of the transitional exemption not to recognize an asset for a period of time. The IPSASB agreed that the value can be determined at any time during the three year period and agreed that the asset should be adjusted retrospectively to the date of adoption of accrual basis IPSASs.

The IPSASB considered the interaction between the asset and liability IPSASs, specifically the impact on the recognition of finance lease liabilities where the recognition of the corresponding finance lease assets is delayed because a first-time adopter takes advantage of the three year transitional exemption. The IPSASB also debated whether relief should be provided for the recognition of provisions relating to the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is allocated. In both instances, the IPSASB agreed that the recognition of such liabilities should be delayed until the related assets are recognized.

The IPSASB agreed that reconciliations should be presented in each period that new items are recognized and/or measured in accordance with IPSASs. It was also agreed that comparative information should be presented during the transitional period where such items were previously recognized using IPSASs.

The IPSASB reviewed the first draft of the proposed Exposure Draft and made various comments to improve the text. The IPSASB will consider a revised version of the Exposure Draft at its September 2013 meeting, which will incorporate the transitional accounting issues for financial instruments and other overarching issues agreed, as well as a Basis for Conclusions and Implementation Guidance.

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## **December 2012**

Regarding the revised approach for the assessment of transitional provisions the IPSASB broadly agreed that the basket classifications for transitional provisions should be labeled as category 1 and category 2 transitional provisions. Members generally supported the view that category 2 transitional provisions should be provided because of practical considerations, but used cautiously by entities. Members generally supported the view that, while applying a category 2 transitional provision, entities should not be allowed to assert compliance with IPSASs and to claim fair presentation. It was proposed that entities which use category 2 transitional provisions should declare to be “in transition to accrual basis IPSASs”.

The IPSASB discussed the revised assessments of proposed transitional provisions for IPSAS 1 to IPSAS 18. The Board provided staff with further directions for refinement of the proposed transitional provisions.

The IPSASB took a first look at the assessments of proposed transitional provisions for IPSASs 19 to 22, IPSAS 24, IPSASs 26 to 27 and IPSAS 31 and provided staff with further directions.

Finally, the IPSASB considered reconciliation requirements at first-time adoption of accrual basis IPSASs and expressed the view that entities should only be required to present a reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to their net assets/equity in accordance with IPSASs for the date of transition to IPSASs. Entities which have applied the cash basis under their previous basis of accounting are required to present a reconciliation of its cash balances if the ending cash balance under their previous basis of accounting and the cash balance in the opening IPSAS statement of financial position are different.

In 2013 the project will be taken over by a staff member of the South African Accounting Standards Board (ASB).

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## **September 2012**

The Board considered the approach applied for the assessment of transitional provisions for first-time adoption of accrual basis IPSASs. The Board confirmed the outlined minimum information required in an entity's first IPSAS financial statements besides the requirement to present a comparison of budget and actual information (when the entity makes publicly available its approved budget). A discussion whether an entity should be required to present such a comparison at first-time adoption was deferred to the December meeting. The Board also confirmed the proposed set of criteria for the assessment of transitional provisions as well as the use of the 'Qualitative Characteristics of, and Constraints on, Information Included in GPFRs' as outlined in CF-ED1. As the fair presentation consideration might lead to the conclusion that specific transitional provisions could not be provided it was suggested that practical complexities/difficulties of a transitional accounting issue should be considered as a separate criterion in the assessment of transitional provisions. Furthermore, it was recommended to differ between transitional provisions which allow for fair presentation and transitional provisions where an entity will likely not be able to assert fair presentation at first-time adoption.

In the second part of the session the IPSASB discussed (a) the assessment of proposed transitional provisions of IPSAS 1 to IPSAS 18 based on the predefined set of criteria and (b) the relief proposed for the ED on First-time Adoption of Accrual Basis IPSASs. The Board provided staff with directions for refinement of the proposed transitional provisions and added some additional transitional accounting issues for consideration by staff. It was noted that staff should also bring back to the next IPSASB meeting the analysis of those IPSASs which have not been included in the Issues Paper for consideration by the Board at the September meeting.

The next steps of the project are to (a) analyze the transitional accounting issues for IPSAS 19 to IPSAS 32 and (b) re-draft the Exposure Draft based on results achieved at the September meeting.

The aim of the IPSASB is to approve an ED on First-time Adoption of Accrual Basis IPSASs at its March 2013 meeting.

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## **June 2012**

At its June 2012 meeting the IPSASB discussed the issue of first-time adoption of IPSASs for the second time. Based on the views taken at the Düsseldorf meeting the Board had no objections to rename the title of the project/Exposure Draft to "First-Time Adoption of Accrual Basis IPSASs".

With respect to the presentation of comparative information and reconciliations in an entity's first IPSAS financial statement the IPSASB concluded that all public sector entities should only be encouraged to present comparative information. Therefore, no entity should be required to present comparative information in its first IPSAS financial statements. The IPSASB expressed the view that the ED should favor the IFRS 1-approach towards presentation of comparative information and reconciliations. Based on the fact that entities transition from different basis of accounting the Board recommended to consider these different starting points and their implications towards the presentation of comparative information and reconciliations in the application guidance section of the ED.

The Board supported the presented approach in case that an entity elects to not present a full set of comparative information (according to the IFRS 1-approach). Based on the proposed minimum requirement, an entity's first IPSAS financial statements contain two statements of financial position, one of them being the opening IPSAS statement of financial position.

With respect to the discussion of selected transitional provisions, the Board recommended that a broader approach should be taken than staff has used for this meeting. It was suggested to define a set of fixed criteria based on user needs in the context of an entity's first IPSAS financial statements. Mainly the user needs as outlined in phase 1 of the Conceptual Framework should form the basis to come up with these criteria. As the preparer-dimension will also need to be reflected, the evaluation of the proposed transitional provisions will result in some sort of cost-benefit analysis.

Regarding the review of the structure of the ED, the Board generally agreed with the changes currently made by staff.

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## **March 2012**

It was the first time that the IPSASB had an extensive discussion of the issues involved with the first-time adoption of accrual IPSASs. The IPSASB discussed the scope of a possible standard on first-time adoption of accrual IPSASs and confirmed that this paper will not consider transitional arrangements from a non-IPSAS compliant cash basis to the IPSAS compliant cash basis. In addition, the Board confirmed that the transition to a non-IPSAS compliant accrual basis is also not in the scope of the project and concluded that no matter which accounting basis an entity had applied before its transition, the standard should focus on the end result of a transition, i.e., IPSAS compliant financial reports. Members of the IPSASB acknowledged that the two transition scenarios, scenario 1: Transition from the (modified) cash basis (non-IPSAS, IPSAS) to the IPSAS accrual basis; and scenario 2: Transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis, as described in the Issues Paper might have different accounting implications for a standard on first-time adoption of accrual IPSASs. The objective of the standard on first-time adoption of accrual IPSASs should be to provide relief to entities in order to be able to comply with IPSASs. Based on the view that a standard on the first-time adoption of accrual IPSASs should focus on the end result of a transition, the Board considered approach No. 2, i.e., to develop transitional arrangements with no specific distinction between scenario 1 and scenario 2, most appropriate.

The IPSASB members expressed their need to see the relief and transitional arrangements which would be provided in the Exposure Draft (ED). Based on this observation and the fact that the project has a more technical focus, the IPSASB concluded that the development of an ED would be advisable. It was however noted that if the Board does not agree on the proposed transitional provisions, a Consultation Paper could be issued instead of an ED.

With respect to public sector statistical reporting guidance the Board recommended that this issue should be neutrally addressed in an ED on first-time adoption. The Board also advised that Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (Third Edition) should include a full discussion on the issues related to alignment of IPSASs and public sector statistical reporting guidance.

Based on the approach that the focus of an ED on first-time adoption will be on the achievement of IPSAS compliance irrespective of the accounting bases an entity has used before, transitional arrangements that allow a period of time to comply with IPSASs were considered as inappropriate. Exceptions for specific items that allow a period of time to comply with the requirements of the Standards should be avoided. The

aim of a standard on the first-time adoption is to assert IPSAS compliance and to provide appropriate relief to preparers. The IPSASB confirmed the need to provide guidance on the preparation of an opening IPSAS Statement of Financial Position on first-time adoption of accrual IPSASs. It was recommended that the ED should encourage the provision of comparative figures but there should be no requirement to provide them.

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### **June 2011**

The IPSASB approved a Project Brief, [\*First-Time Adoption of IPSASs\*](#). The IPSASB identified the issues outlined above as relevant to this project.