



Project:	IPSASB Update	Meeting	AASB November 2019 (M173)
Topic:	Report on September 2019 Meeting of the IPSASB	Agenda Item:	9.1
		Date of Agenda Paper:	6 November 2019
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		Decision-Making:	Low
		Project Status:	Report

Introduction and objective of the meeting

The objective for this meeting is to discuss significant matters arising from the September 2019 meeting of the International Public Sector Accounting Standards Board.

Background

The third meeting for 2019 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held in Lisbon, Portugal, on 24–27 September, hosted by the Ministry of Finance of Portugal.

Mike Blake and Clark Anstis attended the meeting as the Australian member (and also Deputy Chair) of IPSASB and Technical Advisor respectively.

This report summarises possible implications for the AASB, the key technical matters and outcomes from the IPSASB meeting, and operational and strategic matters.

The next meeting of the IPSASB will be held in Abu Dhabi, United Arab Emirates, in December 2019, hosted by the Abu Dhabi Department of Finance.

1 Possible Risks and Opportunities for the AASB

The AASB should monitor the following IPSASB developments because divergence with Australian Accounting Standards as these impact the public sector might be an outcome, if IPSASB-specific requirements were not considered appropriate for incorporation into Australian Accounting Standards. Alternatively, IPSASB developments may complement AASB work underway or provide opportunities the AASB may wish to take on board:

- The Revenue project is considering issues that the AASB addressed in its Income of Not-for-Profit Entities project, which culminated in AASB 1058 and Appendix F to AASB 15. At the September meeting, most IPSASB members supported an approach to revenue without performance obligations that would differ significantly from the AASB's approach in AASB 1058. For example, present obligations might be identified where there are

enforceable arrangements that require the outflow of economic resources but which don't qualify as performance obligations, such as enforceable activities (e.g. capital grants) or incurring eligible expenditure. The IPSASB's equivalent to IFRS 15, applying to revenue with performance obligations, is expected to be consistent with AASB 15. The IPSASB's aim is to finalise Exposure Drafts on revenue with performance obligations (ED 70) and without performance obligations (ED 71) at the December meeting, but this might slip to the March 2020 meeting.

- The Transfer Expenses project is addressing issues that are largely not covered in Australian Accounting Standards and thus IPSASB requirements could form the basis for Australian not-for-profit requirements developed by the AASB. Transfers might be accounted for by the transfer provider by mirroring the transfer recipient's revenue accounting. For example, this could require the transfer provider to recognise an asset until the good/service/other asset provided to the transfer recipient has been transferred to a third-party beneficiary and the transfer recipient reduces their liability and recognises revenue.
- Application guidance on Collective and Individual Services was approved by the IPSASB at the September meeting and is being finalised for publication. There are no corresponding requirements in Australian Accounting Standards. The guidance is being added as an integral part of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.
- The Leases project is considering the accounting for concessionary leases, which are partially addressed in AASB 16. However, the lessor accounting proposals in IPSASB ED 64 (for both normal and concessionary leases) met a very mixed response and are being reconsidered.
- The IPSASB's project on Public Sector Measurement could inform the AASB's current Public Sector Fair Value Measurement project:
 - guidance on applying common measurement bases, including fair value and replacement cost, is being developed;
 - the IPSASB Consultation Paper (April 2019) states its preliminary view that all borrowing costs should be expensed, with no capitalisation option, which would be inconsistent with Australian Accounting Standards (and IFRS Standards); and
 - measurement bases specified in current IPSAS that are inconsistent with the IPSASB Conceptual Framework might be changed through this project.

As the CP is presently on issue, this project was not discussed at the September meeting.

- The IPSASB issued ED 69 *Public Sector Specific Financial Instruments: Amendments to IPSAS 41 Financial Instruments* in August 2019, with a comment deadline of 31 December 2019, covering monetary gold, currency in circulation, and IMF quota subscriptions and special drawing rights. Public sector additions to AASB 9 *Financial Instruments* could be based on the IPSASB's work once it has finalised amendments to IPSAS 41 *Financial Instruments*. This project was not discussed at the September meeting.

2 Key Technical Matters and Outcomes

Revenue

The IPSASB has decided that enforceable (binding) arrangements would be accounted for under an IFRS 15-aligned Standard, with additional guidance for applying the five-step public sector performance obligation approach (PSPOA). Non-enforceable arrangements would be accounted for

under an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The next project output will be two Exposure Drafts, proposing replacements for IPSAS 23 and IPSAS 9 *Revenue from Exchange Transactions*. Updated revised versions of the EDs will be considered at the December meeting for approval.

IFRS 15 Alignment – Revenue with Performance Obligations

At this meeting, the IPSASB addressed whether some disclosure requirements based on IFRS 15 would not be relevant to public sector entities, and decided to retain all the disclosures for the Exposure Draft “Revenue with Performance Obligations” (to be ED 70). The IPSASB decided to include a paragraph to state that specific disclosure requirements need not be satisfied if the information is immaterial.

To address a particular public sector issue, the IPSASB decided to add disclosure requirements for entities that are required by law to provide goods or services when collectibility of the full consideration is not probable, such as amounts billed but not collected. Recognising revenue initially at the amount expected to be collected does not show the amounts forgone.

The IPSASB decided to identify donation components of a transaction with performance obligations on the same basis as established by the AASB in Appendix F to AASB 15.

The Task Force working on this ED has now discussed whether to retain or amend the illustrative examples for IFRS 15, and what public sector-specific examples might be added. The intention is to have a full set of examples so that readers are not required to go to IFRS 15 for examples there that would apply directly. The IPSASB will consider the Task Force’s recommendations at the December meeting, along with transitional provisions, consequential amendments and the Basis for Conclusions for ED 70.

IPSAS 23 Update – Revenue without Performance Obligations

The update of IPSAS 23 will be addressed through an Exposure Draft “Revenue without Performance Obligations” (to be ED 71). This will cover transactions that are unenforceable (do not arise from a binding arrangement) or that do not have performance obligations. The basic approach for unenforceable transactions will specify that revenue should be recognised when amounts are receivable, rather than over time. Members did not support applying an “other obligations” approach, which is referred to in the IPSASB’s Conceptual Framework.

The IPSASB decided at the September meeting that binding arrangements without performance obligations result in a present obligation for the recipient if they contain requirements for enforceable activities or eligible expenditure – a present obligation does not arise only when there is a breach of the arrangement. Revenue would be recognised as those activities are completed or the eligible expenditure incurred. As an example, capital grants could give rise to present obligations (thus supporting the initial recognition of a liability rather than revenue) even if they did not have performance obligations. [In AASB 1058, the AASB concluded that recognising a liability in respect of capital grants was an exception, thus taking the view that there was no present obligation in the absence of performance obligations.]

The IPSASB also decided that transfers subject to appropriations should be recognised as revenue only when the recipient has control of the resources, which might depend on jurisdictional factors.

Transfer (Non-Exchange) Expenses – Grants, Contributions, Other Transfers

An Exposure Draft (to be ED 72) will address the accounting by the resource provider for transactions with or without performance obligations for the resource recipients (excluding those transactions covered by other Standards, such as IPSAS 42 *Social Benefits*). The IPSASB decided to define a *transfer* based on the GFS definition as a transaction in which a “transfer provider” provides a good, service or other asset to another entity without receiving any good, service or other asset in return. Research grants where the research is provided to the transfer provider therefore would be excluded. The requirements of IFRIC Interpretation 21 *Leases* are expected to be included in the ED.

The IPSASB has decided that transfers that impose performance obligations on the recipient should be accounted for by mirroring the transfer recipient’s revenue accounting. At this meeting, the IPSASB considered which requirements and guidance in the draft ED 70 should be deleted for the transfer provider, such as the guidance on input methods for measuring the satisfaction of performance obligations, which is relevant only to the recipient.

Transfers without performance obligations for the recipient would be expensed by the transfer provider at the earlier of the point at which the provider has a present obligation to transfer the resources or else loses control of the resources (e.g. when the transfer is made). The IPSASB also decided that transfers conditional on appropriations would give rise to an obligation only for the current appropriation period.

Collective and Individual Services

The IPSASB approved for issue mandatory application guidance to be added to IPSAS 19, the provisions IPSAS. Collective and individual services are provided by a public sector entity in order to meet needs of “society as a whole”, e.g. street lighting, defence, health care and education. Individual services may have eligibility criteria, but social benefits are excluded because they involve cash transfers rather than goods or services.

The guidance states that an intention to deliver collective or individual services, budget approval to deliver those services, or legislation requiring their delivery are not sufficient to give rise to a present obligation. IPSAS 19 already states that no provision is recognised for costs that need to be incurred to continue an entity’s ongoing activities, which covers these services.

The preceding Exposure Draft ED 67 also covered emergency relief. The feedback indicated confusion over the attempt to distinguish emergency relief that is or is not provided as part of an entity’s ongoing activities, and the IPSASB decided to remove that part of the proposed guidance.

Leases

The approach to resolving the lessor accounting issues raised in the responses to ED 64 *Leases* (issued in January 2018) was again discussed at this meeting. The ED proposed that a lessor would recognise a lease as a separate resource (a lease receivable) to the underlying asset, which would continue to be recognised by the lessor. A small majority of the respondents to ED 64 agreed with departing from the IFRS 16 model, but most of those did not then agree with the ED’s proposed accounting. Based on work by the project Task Force, the IPSASB tentatively concluded at this meeting that the lessor accounting proposed in ED 64 was justified conceptually.

The IPSASB received presentations from the public sector (UK Treasury), the private sector (Mazars accounting firm) and the statistical perspective (Eurostat) on the experience with

implementation of IFRS 16, although this focussed largely on the lessee accounting. The IPSASB will need to consider at the next meeting the implications of a departure from IFRS 16 for lessor accounting, with the lessee experience showing that cost/benefit considerations will be important.

Heritage Assets

The scope of this project is limited to the recognition and measurement of heritage in financial statements, and not to additional stewardship matters. The IPSASB is considering whether heritage asset-related guidance should be added to current IPSAS, rather than developing a separate Standard.

Issues discussed at this meeting included control of heritage items under stewardship, trust and long-term lending arrangements; depreciation, useful life, subsequent expenditure and impairment issues; and non-heritage use of assets. These issues will be considered further.

Infrastructure Assets

The output of this project might be amendments only to IPSAS 17 *Property, Plant and Equipment* or to its application guidance. Accordingly, the IPSASB considered a framework developed by the project Task Force for deciding whether guidance is required on a particular area, such as this one, and will develop this further for application in other cases as well, including heritage assets.

The IPSASB noted a comprehensive list of issues regarding infrastructure assets, grouped under the headings in IPSAS 17. The IPSASB discussed whether the existing requirement to account separately for land and buildings means that land under infrastructure must also be accounted for separately. Control of infrastructure assets and backlog maintenance were also discussed. The discussion of issues will continue at the next meeting.

3 Operational and Strategic Matters

Meeting Attendance, Board Membership and Staffing

The total membership complement comprises 18 members. Two members did not attend this meeting – the members from Panama and South Korea.

Board Appointments

The membership terms of six members conclude at the end of 2019. Two members are being reappointed, as follows:

- Lindy Bodewig (South Africa) – for three years;
- Chris Nyong (Nigeria) – for three years.

Four members are retiring from the IPSASB:

- Stuart Barr (Canada) – one of two Canadian members on the board;
- Francesco Capalbo (Italy);
- Aracelly Mendez (Panama); and
- Leonardo Nascimento (Brazil).

The four new members from the start of 2020, appointed for three years and eligible for reappointment, are:

- Kamira Sanchez Nicosia (Panama) – Ministry of Finance;
- Ajith Ratnayake (Sri Lanka) – IPSAS adoption;
- D. Scott Showalter (USA) – academic, formerly Chair of the US Government’s Federal Accounting Standards Advisory Board (FASAB); and
- Patricia Varela (Brazil) – academic, former standard-setter.

Staffing

The IPSASB currently has its full complement of eight full-time technical staff.

John Stanford will step down as Technical Director early in 2020, continuing in a part-time technical role. Ross Smith, the current Deputy Technical Director, will become Program and Technical Director.

Strategic Matters

GFS Alignment

The IPSAS/GFS tracking table is being updated. The IPSASB hopes to hold a workshop with the IMF in mid-2020 to assess the differences between IPSAS and GFS.

Canadian Government Funding

The IPSASB has finalised its next five-year funding agreement with the Canadian Government through the Treasury Board of Canada. The agreement will cover the period up to 2025.

Public Interest Committee

The PIC oversees the activities of the IPSASB in the public interest and comprises representatives from the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Supreme Audit Institutions (INTOSAI).

Jon Blondal, from the OECD, presented to the IPSASB on the role of the PIC. He noted that the PIC currently views the work and procedures of the IPSASB favourably. A review of the IPSASB’s governance arrangements is due in 2020.

IASB Liaison

The IPSASB Chair and senior staff meet periodically with IASB members and staff. The most recent meeting reported was in March 2019. No IASB member or staff has attended an IPSASB meeting for some time.

European Public Sector Accounting Standards

Eurostat is co-ordinating the European Commission project to consider the development and promulgation of European Public Sector Accounting Standards (EPSAS). The IPSASB Standards are likely to provide a foundation for the European Standards, but there are likely to be some differences. No timeline is indicated.

The Eurostat observer reported to the meeting that IPSAS will be screened against the EPSAS conceptual framework and the European statistical framework. An “accounting maturity” exercise will be carried out across the EU, to assess costs and benefits for each jurisdiction. This was last

done five years ago. A new European Parliament and Commission from November means briefing a new Commissioner for Economic and Financial Affairs on the EPSAS program.

4 Future IPSASB Meetings

Dates	Location	Host
10–13 December 2019	Abu Dhabi, UAE	Department of Finance, Abu Dhabi
10–13 March 2020	New York, NY, USA	IFAC
23–26 June 2020	Toronto, Canada	Chartered Professional Accountants Canada
15–18 September 2020	(TBA)	
8–11 December 2020	Toronto, Canada	Chartered Professional Accountants Canada

Related meetings

Dates	Location	Meeting
9 December 2019	Abu Dhabi, UAE	IPSASB Consultative Advisory Group
22 June 2020	Toronto, Canada	IPSASB Consultative Advisory Group
7 December 2020	Toronto, Canada	IPSASB Consultative Advisory Group