



<b>Project:</b>	<b>IPSASB Update</b>	<b>Meeting</b>	AASB November 2021 (M184)
<b>Topic:</b>	<b>Report on September 2021 Meeting of the IPSASB</b>	<b>Agenda Item:</b>	17.2
		<b>Date of Agenda Paper:</b>	26 October 2021
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		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Report

## Introduction

The third principal meeting for 2021 of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) was held via teleconference. Six sessions were held, on 13-17 and 21 September 2021. An additional “check-in” meeting will be held on 28 October.

Mike Blake (Australian member) and Clark Anstis (Technical Advisor) attended the sessions of the meeting by video link.

This report summarises possible implications for the AASB arising out of the key technical matters and outcomes from the IPSASB meeting and agenda, as well as highlighting new and forthcoming pronouncements or proposal documents.

The next principal meeting of the IPSASB will be held via teleconference, in December 2021.

## 1 Possible Risks and Opportunities for the AASB

The AASB should monitor the following IPSASB developments. Divergence with Australian Accounting Standards as applicable to public sector entities might arise, if different requirements in International Public Sector Accounting Standards (IPSAS) are 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.

### *Projects Considered at the September 2021 IPSASB Meeting*

- Limited Update of the IPSASB’s Conceptual Framework – Phase 2 – this phase is to address the topics of asset and liability definitions, unit of account, executory contracts, service potential, prudence and materiality. Capital maintenance has been deferred to a later phase. The ED will propose that ‘service potential of a resource’ be defined as the capability to provide services that contribute to achieving an entity’s objectives. Prudence is to be treated as a reinforcement of neutrality rather than as a separate qualitative characteristic, and commentary on materiality extended consistently with the IASB’s CF amendments. Public

sector-specific revisions could be helpful to the AASB in extending the application of the 2019 Conceptual Framework to public sector entities in due course.

- Revenue and Transfer Expenses – at the September meeting the IPSASB continued its detailed assessment of the submissions received in response to its EDs 70, 71 and 72. The proposals in ED 71 *Revenue without Performance Obligations* (and subsequent decisions) represent a very different approach to that in Australian Accounting Standards. The ultimate IPSASB decisions should be considered by the AASB in reviewing AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. There is no Australian Accounting Standard on transfer expenses.

The IPSASB has tentatively decided that all binding arrangements give rise to present obligations. The IPSASB revised the definition of binding arrangements to read “an arrangement that confers enforceable rights and obligations through legal or equivalent means on the parties to the arrangement”. This definition will apply to both the revenue and transfer expenses Standards. Binding arrangements include contracts.

The IPSASB has concluded that enforceability is based on the powers of the parties to the binding arrangement, and not on the probability of enforcement action. This is the approach in the not-for-profit guidance in Appendix F to AASB 15. Uncertainty of enforcement will be considered by the IPSASB as a measurement issue.

Performance obligations are to be treated as a subset of present obligations. A transfer recipient would be required to recognise a liability (deferred revenue) when it receives resources prior to fulfilling its present obligations under a binding arrangement.

In a significant decision, the IPSASB has now decided to remove the distinction between transfer expenses with performance obligations and transfer expenses with present obligations. This means that a transfer provider would have to address recognising an asset where the transfer recipient has not yet satisfied its present obligations (including performance obligations) under a binding arrangement. This expands the asset recognition approach that had been proposed in ED 72 *Transfer Expenses* only in relation to performance obligations.

- Natural Resources – Phase 1 focusses on developing a Consultation Paper to address subsoil resources, living resources and water. Further phases might develop an exposure draft, depending on the responses to the CP, or address other natural resources. This work potentially could establish recognition or disclosure requirements for resources that currently are ignored in financial statements, which ultimately could form the basis for an AASB Standard following appropriate due process.

The IPSASB has debated a general definition of “natural resources” and the extent to which human intervention (e.g. impounding or extraction) affects the “natural state” of natural resources. For example, dammed but untreated water would be included. Are living resources subject to conservation activity included? The CP will consider whether resources that don’t meet the proposed definition of natural resources are within the scope of other IPSASs. The IPSASB has also discussed measurement uncertainty in relation to holding natural resources for financial or operating capacity. Presentation and disclosure requirements might address both recognised and unrecognised natural resources, for both financial statements and other general purpose financial reports.

Phase 1 will also cover exploration, evaluation, development and production costs re subsoil resources, looking to IFRS 6 *Exploration for and Evaluation of Mineral Resources* as a starting point. The IPSASB has reached the preliminary view that sovereign powers to issue exploration licences are not recognisable as assets. This part of the project might be aligned with IFRS requirements, and therefore with AASB requirements.

- Leases – Phase 1 – this part of the IPSASB’s leases project is now an IFRS 16 *Leases* alignment project and hence may have limited relevance for the AASB. The IPSASB noted the majority of respondents to ED 75 favoured including concessionary leases in the scope of the Phase 1 IPSAS, despite their intended specific coverage in Phase 2, and at this stage does not support a scope exclusion. The addition of ‘service potential’ to the IFRS 16 wording ‘future economic benefits’ garnered extensive support. Other decisions will align the content of the IPSAS with IFRS 16 and therefore with AASB 16.
- Retirement Benefit Plans – This project is to develop a new IPSAS based on IAS 26, adapted with consideration given to alternative approaches of national standard-setters, including AASB 1056 *Superannuation Entities*. Decisions at the September meeting for an Exposure Draft include a requirement to present the actuarial present value of promised retirement benefits (based on projected salaries) on the face of the statement of financial position, and measurement of plan assets at fair value. The ED will not specify how contributions to a plan and benefits should be classified. Different approaches are expected to be permitted, so that the ultimate IPSAS could permit the AASB 1056 approach of requiring an income statement and classification of contributions as increases in obligations.

### ***Projects Not Considered at the Latest IPSASB Meeting***

- Limited Update of the IPSASB’s Conceptual Framework – Phase 1 – this phase addresses measurement issues in CF Chapter 7 through ED 76, including measurement models and bases (leaving techniques to be covered in IPSAS). The ED proposes adding fair value to the CF as a measurement basis. The selection of measurement bases is to be linked to the measurement objective (usually financial capacity or operational capacity) rather than to entry or exit values. The AASB should assess the IPSASB outcomes for potential not-for-profit entity modifications to the AASB Conceptual Framework (2019). [The AASB made a submission to the IPSASB on both ED 76 and ED 77 in October 2021.]
- Public Sector Measurement – this project could inform the AASB’s current Public Sector Fair Value Measurement project as it is addressing fair value as one of the measurement bases relevant to general purpose financial reports. Other measurement bases addressed in ED 77 include historical cost, current operational value and (for liabilities) cost of fulfillment. Measurement techniques for current value measurement bases are proposed as generally comprising market, income and cost approaches. The ED proposes removing replacement cost as a measurement basis or technique. The IPSASB project could lead to changes in the measurement techniques specified in IPSAS, which the AASB should consider ultimately in terms of whether to update the measurement requirements in AASB Standards for not-for-profit public sector entities (and potentially for NFP private sector entities too).
- Infrastructure – Exposure Draft ED 78 proposes to relocate general measurement aspects from IPSAS 17 *Property, Plant and Equipment* (PPE) to a new IPSAS on measurement. Issues relating to infrastructure, such as the distinguishing characteristics of infrastructure assets that give rise to particular accounting issues, land under or over infrastructure assets, impairment of land and the use of condition-based asset management information are

covered. Some issues will not be subject to more specific guidance where the IPSASB considers that the general guidance in IPSAS 17 should be applied, such as dismantling costs. The infrastructure-related guidance and illustrative examples should be monitored to assess whether they might be proposed by the AASB as useful additions to AASB 116.

- Heritage – the IPSAS 17 update ED (ED 78) also addresses issues relating to heritage assets. The ED proposes removing the current scope exclusion for heritage assets in IPSAS 17. The ED also proposes that IPSAS 17’s depreciation requirements apply to heritage assets, although in certain circumstances depreciation could be zero, and that heritage assets can be impaired and should be subject to normal impairment reviews. The heritage-related guidance and illustrative examples should be monitored to assess whether they might be proposed by the AASB as useful additions to AASB 116, even though heritage assets are already subject to AASB 116.
- Non-Current Assets Held for Sale and Discontinued Operations – ED 79 is based on IFRS 5. For accountability purposes, the ED proposes an additional disclosure of the fair value of assets held for sale where they are recognised in the financial statements at a lower carrying amount. If this project identifies any issues with public sector application of IFRS 5, the AASB should consider proposing amendments to AASB 5.
- Leases – Phase 2 – this part of the IPSASB’s leases project is based on a separate Request for Information (January 2021) to seek details of public sector-specific matters and is of more relevance to the AASB than the Phase 1 work on an IPSAS equivalent of IFRS 16. Phase 2 is expected to address concessionary leases and similar public sector arrangements through a second ED process, providing the opportunity for the AASB to comment on matters that could be relevant to public sector application of AASB 16.
- Borrowing Costs – the IPSASB finalised at its June 2021 meeting (but not yet published) non-authoritative guidance to add to IPSAS 5 *Borrowing Costs* following consideration of the responses to ED 74. The new implementation guidance and illustrative examples on how to capitalise borrowing costs (which is retained in IPSAS 5 as an allowed alternative to expensing the costs) are not specific to public sector circumstances, so that adding them to AASB 123 might not be appropriate – and no demand for such guidance has been noted.

## 2 IPSASB Work Program

### *Exposure Drafts*

EDs 76–79 were published in April 2021 as a “package” of EDs, addressing measurement issues. They were open for comment until 25 October 2021:

- ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*;
- ED 77 *Measurement* (a new Standard);
- ED 78 *Property, Plant and Equipment* (IPSAS 17 update – covering measurement, infrastructure assets and heritage assets); and
- ED 79 *Non-current Assets Held for Sale and Discontinued Operations*.

The AASB has made a submission to the IPSASB on EDs 76 and 77.

ED 80 *Improvements to IPSAS, 2021* was approved at the June meeting and published in July. The comment deadline was 30 September 2021. ED 80 includes both general and IFRS alignment improvements. For example, the IFRS-based proposals include amendments addressing the interest rate benchmark reforms and proceeds from property, plant and equipment prior to intended use that have already been incorporated into Australian Accounting Standards. The ED does not include proposals of significance for Australia.

### ***Mid-Period Work Program Consultation***

The IPSASB completed at the June meeting its detailed consideration of potential projects to propose in the mid-period Work Program Consultation, under its Strategy and Work Program 2019–2023. The Consultation Paper was published in July for comment by 30 November 2021. Regional virtual outreach events will be held for Africa, Asia, Europe and South America in October.

The CP proposes that the IPSASB commence the following two major and four minor projects during 2022 and 2023, as resources become available, for completion under the post-2023 Strategy and Work Program:

- presentation of financial statements (major project) – e.g. encouraging judgements (an updated IAS 1), other comprehensive income;
- differential reporting (major);
- IPSAS 21 *Impairment of Non-Cash Generating Assets* (minor) – value in use guidance;
- IPSAS 31 *Intangible Assets* (minor) – measurement, heritage;
- IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (minor) – improving exceptions and exemptions; and
- making materiality judgements (minor) – practice statement.

A project on intangible assets could be of particular interest to the AASB, given its own work on intangibles.

### ***Sustainability Reporting***

The IPSASB is monitoring developments regarding sustainability reporting with a view to considering how best to contribute to the work. The IPSASB (represented by the Chair) is an observer of the IASB's Technical Readiness Working Group, which is considering the strategic and operational issues involved in the creation of an International Sustainability Standards Board. The IPSASB observes meetings that are focused on review of technical observations and proposals.

## **3 IPSASB Membership**

The membership terms of six IPSASB members conclude at the end of 2021. Two members have been reappointed for their second three-year term:

- Luzvi Chatto (Philippines) – public sector audit; and
- Lynn Pamment (United Kingdom) – public sector audit.

Four members are retiring from the IPSASB:

- Mike Blake (Australia) – public sector audit;
- Adrienne Cheasty (USA/UK) – economist;
- Bernhard Schatz (Austria) – Big 4 firm; and

- Marc Wermuth (Switzerland) – central government.

The four new members from the start of 2022, appointed for three years, are:

- Abdullah Al-Mehthil (Saudi Arabia) – central government;
- Claudia Beier (Switzerland) – provincial government;
- Maik Esser-Müllenbach (Germany) – public sector audit; and
- Liang Yang (China) – Big 4 firm.

As a result of these appointments, the IPSASB will be the first of the IFAC Boards to have a majority female membership.

For the first time since the inception of the IPSASB and its predecessor (the Public Sector Committee), Australia will not be represented by a board member and technical advisor.

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