

INTERNATIONAL FEDERATION OF ACCOUNTANTS  
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD  
**MINUTES OF THE JULY MEETING**  
**Held on July 3 – 6, 2007**

**ATTENDANCE**

<b>COUNTRY</b>	<b>PARTICIPANTS</b>	<b>ATTENDEES</b>	<b>APOLOGY/NIA*</b>
United Kingdom	Mike Hathorn (M)	X	
	Ian Carruthers (TA)	X	
Argentina	Carmen Palladino (M)	X	
	Pablo Maroni (TA)		X
Australia	Peter Batten (M)	X	
	Jim Paul (TA)	X	
Canada	Rick Neville (M)	X	
	Ron Salole (TA)	X	
China	Hong Lou (M)		X
	Hongxia Li (TA)	X (July 4 – 5)	X (July 3 & 6)
	Huang Guhohua (TA)	X (July 4 – 6)	X (July 3)
France	Marie-Pierre Cordier (M)	X	
	Jean-Luc Dumont (TA)	X	
India	Pankaj Jain (M)	X	
	Avinash Chander (TA)		X
Israel	Ron Alroy (M)	X	
	Haya Prescher (TA)		X
Japan	Tadashi Sekikawa (M)	X	
	Kenji Izawa (TA)	X	
Mexico	Alejandro Luna		
	Rodríguez (M)	X	
Netherlands	Frans Van Schaik(M)	X	
	Thomas Van Tiel (TA)	X	
New Zealand	Greg Schollum (M)	X	
	Annette Davis (TA)	X	
Norway	Tom Olsen (M)		X
	Harald Brandsås (TA)	X	
South Africa	Erna Swart (M)	X	
	Lindy Bodewig (TA)	X	
United States	David Bean (M)	X	
Public Members	Andreas Bergmann (M)	X	
	Reto Fausch (TA)	X	
	John Peace (M)	X	
	Stefano Pozzoli (M)	X	
	Marcello Bessone (TA)	X (July 5 – 6)	X (July 3 – 4)
ADB	Hong-Sang Jung (O)	X	
EU	Rosa Aldea Busquets (O)	X	
Eurostat	John Verrinder (O)	X	

<b>COUNTRY</b>	<b>PARTICIPANTS</b>	<b>ATTENDEES</b>	<b>APOLOGY/NIA*</b>
IASB	Tricia O'Malley (O)	X (July 3-5)	X (July 6)
INTOSAI	Robert Dacey (O)	X	
IMF	Sagé De Clerck (O)	X	
OECD	Jon Blondal (O)		X
UN	Sandra Stewart (O)	X (July 3-5)	X (July 6)
UNDP	Gwenda Jensen (O)	X (July 3-5)	X (July 6)
World Bank	Simon Bradbury (O)	X (July 3-5)	X (July 6)
IFAC	Stephenie Fox (S)	X	
	Paul Sutcliffe (S)	X	
	John Stanford (S)	X	
	Matthew Bohun (S)	X	
	Barry Naik (S)	X	
	Juan Zhang (S)	X	
	Qing Song (S)	X	

\* NIA- Not in Attendance

(M) Member

(TA) Technical Advisor

(O) Observer

(S) IFAC Staff

## **1. WELCOME AND GENERAL ADMINISTRATION**

The Chair welcomed members, technical advisors, observers and staff, including the following to their first IPSASB meeting:

- Hongxia Li, Technical Advisor - China;
- Huang (Charles) Guhohua, Technical Advisor – China;
- Lindy Bodewig, Technical Advisor for South Africa;
- Hong-Sang Jung, Observer, Asian Development Bank;
- Tricia O’Malley, Observer, International Accounting Standards Board;
- Sandra Stewart, Observer, United Nations (substituting for Jay Kariah);
- Qing Song, Technical Manager IPSASB, on a six-month secondment from the Ministry of Finance, China; and
- Don Geiger (public gallery), joining IPSASB staff on August 1.

The Chair noted apologies from:

- Hong Lou, Member – China;
- Tom Olsen, Member - Norway;
- Jon Blondal, Observer – OECD;
- Barry Anderson, Observer – OECD; and
- Jay Karia, Observer – UN.

Rick Neville welcomed the IPSASB to Montréal on behalf of the Canadian Institute of Chartered Accountants and the Office of the Comptroller General of Canada.

In response, the Chair thanked the following for hosting:

- Ron Salole and Rick Neville, the Canadian Institute of Chartered Accountants; and
- Charles-Antoine St-Jean, Controller General of Canada.

The Chair then acknowledged the presence of Professor Ato Gharthey of the Institute of Chartered Accountants Ghana and re-iterated his thanks from the Accra meeting to all those in Ghana for the hospitality shown in hosting the previous meeting.

The Chair also noted the presence of a number of guests:

- Ian Hague, IASB staff, working on the Conceptual Framework Project; and
- Kevin Dancey, IFAC Board Liaison Member

### *MINUTES*

A question was asked about the status of a project on accounting for emission rights which it was recalled was raised as a potential IPSASB project at an IPSASB meeting prior to Accra, Ghana.

The Technical Director advised that although accounting for emission rights had not been identified in Accra as an IPSASB project in the next three years, that did not automatically exclude it from ever being considered further over this period. In concert

with the Chair, they advised that the strategic plan is reviewed annually which would provide the flexibility for the Board to review its project choices.

The March 20-23, 2007 (Accra) minutes were then approved without amendment.

## **2. CONCEPTUAL FRAMEWORK**

The subcommittee chair firstly acknowledged the efforts of subcommittee members and staff to date thanking them for their hard work, both individually and collectively. While the project is still in its relative infancy, much voluntary work has been performed in getting to this stage for which the subcommittee chair and IPSASB are grateful.

Members reviewed the agenda papers and:

- noted the first report of the Conceptual Framework subcommittee (March 2007) and received a verbal report on the subcommittee's second meeting, immediately preceding this (July 2007) IPSASB meeting;
- noted the Chair's report on his meeting with the Chair of the International Accounting Standards Board (IASB) and the Chair of the UK Accounting Standards Board (ASB) to consider enhanced co-operation on the IASB and IPSASB Conceptual Framework Projects – the Chair advised that the meeting also encompassed discussion of IASB input to the IPSASB's current project on service concessions. The Chair noted that it was a very positive meeting and the prospects for strengthening co-operation would be further pursued with the IASB; and
- agreed that the Conceptual Framework Project Brief should be revised to clarify that it was proposed that the IPSASB Framework would have similar authority as the current IASB Framework.

Members noted and agreed with the following amendments to the project development schedule and process proposed by the Conceptual Framework subcommittee:

- The subcommittee would meet on the day preceding each IPSASB meeting as well as in conjunction with the group of four national standard setters (NSS-4) and world standard setters who are reviewing the IASB-FASB joint Framework project for its implications for public benefit entities.
- Papers would be prepared by the national standard setters and provided to staff with sufficient time for them to be reviewed and discussed with the authors prior to their inclusion in IPSASB agenda papers.
- IPSASB staff would continue to work with the authors between IPSASB meetings to support the paper development process.
- The style of all papers would reflect that of the UK-ASB paper. Members agreed that the Consultation Papers would not include a preliminary view, but would explain the different approaches that may be adopted in dealing with each specific issue under consideration, and would seek comments on which of those, or other, approaches were favored by respondents.
- It was intended that the project would be accelerated with the commencement of Group 2 projects and Group 3 projects as soon as possible. Members noted that the French Ministry of Finance and Chinese Ministry of Finance had agreed to lead

components of Group 2 projects, and Canada and New Zealand had also indicated that they may be able to lead Group 2 or 3 projects. It was also noted that it was likely that additional staff resources would need to be allocated to support the accelerated project development.

- “user needs” focus groups would be established to provide reactions to, and further input on, the discussion of user needs in the Consultation Paper dealing with the objectives of financial reporting. Members agreed to explore mechanisms to facilitate the establishment of user groups in their jurisdictions.

Members received presentations from David Loweth (UK-ASB), author of the paper on “Objectives of Financial Reporting”, and Erna Swart (South Africa – ASB), author of the paper on “The Scope of Financial Reporting”. Members thanked the authors for their work in preparing the papers, noted that a commentary on each paper from Kevin Simpkins was tabled, discussed each paper in detail and provided input to the authors for further development of the papers. Members agreed to provide input to each author on relevant requirements and practice in their jurisdiction.

In respect of their review of the paper dealing with the Objectives of Financial Reporting, and in response to the questions raised by the author, members agreed that:

- all key issues had been identified;
- the focus should be on general purpose financial reporting, rather than on financial statements only;
- the paper should include additional explanation of the implications of specifying the objective(s) of general purpose financial reporting to include accountability as well as decision usefulness. It was agreed that the term accountability rather than stewardship should be used and the paper should explain whether there was any substantive difference in the meaning of stewardship and accountability for financial reporting purposes. Concern was noted as to the translation difficulties for both words - “accountability” and “stewardship”;
- the linkages between the objectives, scope and qualitative characteristics of financial reporting should be strengthened;
- the paper should make clear that information provided in the general purpose financial report would contribute to assessments of the efficient and effective use of resources, but it was likely that additional information outside the scope of financial reporting would also be necessary for such assessments;
- the notions of “compliance”, “inter-period equity” and “effectiveness” should be further developed in this “objectives” paper or in the “scope” paper.
- compliance should be identified as a component of performance reporting, rather than as a separate objective in itself, and the paper should explain that compliance encompasses more than simply budgetary compliance. Members also agreed that the paper should not build an expectation that the extent to which the entity complied with “all” rules would be reflected in the general purpose financial report;
- the discussion of the users and potential users of general purpose financial reports was appropriate, but the rationale underlying the need to identify a primary user group needed to be further developed, and the relationship between the primary user group and broad range of users clearly established and explained;

- either the “objectives” or “scope” papers needed to include an explanation of the meaning of “financial condition” for financial reporting purposes and the broad types of information disclosures that were relevant as input to assessments of financial condition; and
- the paper should consider whether different objectives of financial reporting should be established for, for example, the whole of government and individual agencies and departments and/or whether this issue should be further considered at other levels/components of the Framework.

In respect of its review of the draft paper “The Scope of Financial Reporting”, members noted that many of the issues raised in the paper had been referred to and discussed when reviewing the “objectives” paper and that the author would incorporate these matters in the further development of the paper. Members also agreed:

- general purpose financial reporting encompassed, but was broader than, financial statements and notes thereto. Some members expressed a concern with the proposal that the scope be established as broad as possible, since it would encompass matters beyond reporting the financial characteristics of performance. Other members expressed the view that it was appropriate that at the conceptual level a broad wide scope be contemplated given that it was establishing parameters for financial reporting over the long term. It was agreed that the link between reporting financial and non-financial performance be further developed in the paper and linked to the objectives of financial reporting;
- the term general purpose financial reporting should be used at this stage, but whether a different term would better reflect the intended scope should be further considered by the author and raised as an issue in the paper;
- the paper should consider, and seek views on, whether budget presentation (but not formulation) was within the scope of general purpose financial reports and therefore potentially the subject of an IPSAS; and
- the paper should consider whether reporting on long term fiscal sustainability could be encompassed within, or at least not excluded from, the scope of general purpose financial reporting. This consideration should discuss, even if not excluded from the potential scope of financial reporting:
  - whether accounting standard setters should develop an IPSAS dealing with this topic;
  - such matters as the nature and qualitative characteristics of the information that might be necessary to develop such reports; and
  - the role of other agencies, such as finance and operating ministries, in preparing and disseminating such information.

The authors agreed that a revised draft of the “objectives” and “scope” papers would be developed for review at the IPSASB’s next meeting in November 2007. Members noted that it was desirable that these papers be included in an early distribution to the Board, possibly prior to the next subcommittee meeting in September.

Members directed that first drafts of papers dealing with the qualitative characteristics of information included in general purpose financial reports and the reporting entity also be developed for review at the next meeting. Members noted their expectation that the “objectives” and “scope” papers would be approved at the next meeting ready for issue with the qualitative characteristics and reporting entity papers when those papers are approved.

Mr. Ian Hague then provided an update on the current status of the IASB-FASB joint project to update their conceptual frameworks. Mr. Hague is leading the IASB staff in the joint project.

### **3. SOCIAL BENEFITS**

The IPSASB confirmed the decision at Accra in March 2007 to develop and publish an Exposure Draft (ED) of a Standard dealing with disclosure of amounts to be transferred to eligible participants at the reporting date. This will be part of a package that will also include a Consultation Paper on issues in the recognition and measurement of obligations arising from social benefits and the project brief on long term fiscal sustainability.

They agreed that the ED be titled, “Social Benefits: Disclosure of Cash Transfers to Individuals and Households” and contain a section at the front outlining the IPSASB’s strategic approach to accounting for social benefits. Also, the number of Specific Matters for Comment (SMCs) should be reduced, so that, in general, one SMC should be asked about each of the main sections of the ED with a further question on whether the reliability of information in disclosures gives rise to onerous and impracticable audit implications.

It was further agreed that:

- the ED should clarify that it does not require disclosures for collective goods and services and individual goods and services;
- entities operating composite social security programs should consider whether they can distinguish the component providing benefits in non-exchange transactions from the component dealing with non-exchange transactions, and, if able to make such a distinction, estimate amounts to be transferred to eligible participants in respect of the component dealing with non-exchange transactions;
- the commentary on the determination of amounts to be transferred where a program is to be terminated should consider the approach in IAS 12, *Income Taxes*;
- the ED not use the term “actuarial” in providing requirements and commentary on the assumptions necessary for determination of amounts to be transferred to eligible participants;
- the discount rate used to discount amounts to be transferred to eligible participants should be a rate that reflects the time value of money and the rationale for this approach should be explained in more detail in the Basis for Conclusions;
- the requirement for disclosure of the number of participants for each cash transfer program should be reinserted and a requirement for the financial effects of changes in

principal assumptions since the last reporting date should be introduced with rationales in the Basis for Conclusions;

- the Illustrative Disclosures should reflect that they are minimum disclosures; and
- the material in Appendices highlighting some of the characteristics of individual goods and services and social security programs should be deleted.

Members agreed that the scope and level of detail in the Consultation Paper was broadly correct. However, some Members expressed reservations that the Consultation Paper was insufficiently impartial in areas of the discussion, for example in its assertion that the recognition of expenses and liabilities would lead to the presentation of large amounts in the statement of financial performance and the statement of financial position. It was agreed that the revision of the Consultation Paper should use as a model the draft Consultation Paper on “The Objectives of Financial Reporting” drafted by the United Kingdom Accounting Standards Board for the Conceptual Framework project. It was also agreed that:

- the definitions of cash transfers, collective goods and services and individual goods and services should mirror those in ED 33 (after the meeting ED 33 was renumbered to ED 34);
- the reference to the US Federal Accounting Standards Advisory Board’s Preliminary Views Paper should be amended to reflect the point that the majority view considers that a liability arises after forty covered quarters because, at that point an individual needs to take no further action in order to obtain benefits in the future;
- SMC 2 on present obligations for contributory programs should be reworded;
- more contextual information in the section on fiscal sustainability would be provided; and
- SMC 7 on whether respondents agree with the IPSASB’s decision to initiate a project on fiscal sustainability would be deleted.

Staff agreed to circulate a revised ED in mid-August and a revised version of the Consultation Paper in September.

#### **4. RULES OF THE ROAD**

The Technical Director lead the discussion regarding developing criteria to determine appropriate modifications to IASB standards in developing IPSASs that are converged with related IFRSs. It was noted that IPSASB’s role in setting high quality accounting standards for the public sector is a fundamental principle that should guide the IPSASB in setting any standards, whether these are converged with IFRS or related to public sector specific projects.

It was also noted that, in many respects, this is a project for the short term since the public sector conceptual framework will, in effect, set the “rules of the road” in the longer term. Once a conceptual framework is developed, all standards will be assessed in the context of how they fit within the framework, rather than whether or not they converge with IFRS.

The criteria being developed to assess modifications to IFRSs will relate to those standards projects for updating existing IPSASs that were based on IASB standards as well as those projects where there is an existing IASB standard but no related IPSAS.

Members discussed the initial paper, noting that it is a starting point to begin a discussion about differences in private sector and public sector accounting standards and whether these are major or minor. In the public sector, some entities are similar to the private sector and therefore there may be little need for different standards. Others are quite distinct. One observer noted that there is a need for guidance on the differences between IFRS and IPSAS since public sector issues are not always well explained and the reasons therefore for differences in the standards not well understood or articulated.

Members noted that when there is a new IFRS it is important to review it in the context of public sector issues. The importance of being consistent when reviewing standards was highlighted. There was some discussion of developing checklists, for example to address whether the IFRS affects principles or objectives, whether it affects policies and whether transactions are affected. This would enhance consistency in applying the rules of the road and would result in greater discipline from the start. Some expressed reservations about a checklist approach with the concern that it could lead to a mechanical exercise rather than a thoughtful consideration of the issues.

One member noted that the real concern is whether there are any public sector issues and thought that the focus of the criteria should be on identifying these issues. There was some discussion about the approach to convergence and whether the IPSASB should be adopting the IFRS without any changes at all. It was reiterated that the strategy for convergence had been agreed in March as a “review and adapt” approach and that this is not being revisited at this time.

Some concern about the status of IFRICs under the policy was highlighted particularly in light of the fact that interpretation of standards for implementation is an ongoing issue all around. There was also some discussion about the authoritative nature of examples. Members thought that both would need to be addressed in any policy statement that is forthcoming.

As a high level policy, one notion raised was whether something is different in the public sector and, if so, would the objective of the IFRS still be met – if not, then there would be a need to identify how the objective would be better achieved through a difference in accounting specific to the public sector. As a guiding principle, if the IFRS is not representationally faithful as a result of the public sector difference, then a change is needed.

One observer highlighted the challenges in ‘catching up’ to the IASB standards and noted the importance of being involved within the IASB process as early as possible to be able to influence the development and put public sector issues into the mix as soon as possible. An iterative process will result in better standards for all. The IPSASB had

agreed in March to provide responses to all public documents and agreed that earlier involvement in the process is preferred.

Many national standard setters have reviewed convergence policies and in the end most have gravitated to complete convergence in order to ensure consistent application of principles. Members noted that the difference in the case of IPSASB compared to national standard setters relates to the fact that public sector issues may be different and the objectives are unique compared to the IASB's private sector mandate.

As a general comment, members agreed that public sector reasons for departure have not been well documented in the past and that this needs to be improved as part of this project.

In wrapping up, the IPSASB noted that public sector issues need to be addressed as part of the due process and that it is important for the IPSASB to apply the public sector filter when developing standards, even those that converge with IFRS. It was agreed that a variety of material would be reviewed, including that in the UK, NZ and Australia in terms of how they address convergence. In addition staff will consider whether the development of certain checklists might contribute to this process.

Other items to be addressed include the authoritative status of the standards such as examples and basis for conclusions. The need for a disciplined approach to convergence was noted and the development of a policy statement is seen as the end goal of the project. The need for high quality standards for the public sector was also reiterated. Detailed guidance to develop a plan and approach to the process was agreed to be necessary. A draft paper will be circulated around the end of August for feedback from members and TAs with the goal of approving a final policy in November.

## **5. IMPAIRMENT OF CASH GENERATING ASSETS**

Staff identified the scope as the major issue raised in submissions. The majority of respondents had disagreed with the exclusion of property, plant and equipment carried under the revaluation model in IPSAS 17, *Property, Plant and Equipment*. The IPSASB also considered whether the scope exclusion in IPSAS 21, *Impairment of Non-cash Generating Assets* for assets carried under the revaluation model in IPSAS 17, should be reconsidered.

Some Members agreed with those submissions that considered that there is no public sector specific reason to exclude property plant and equipment carried under the revaluation model in IPSAS 17 from the scope. Some Members doubted whether entities were adhering to the requirement in IPSAS 17 that when one item in a class is revalued the entire class to which that asset belongs should be revalued. For other Members this was an issue to do with the proper implementation of IPSAS 17 and it is not appropriate to address perceived inadequacies in the application of IPSAS 17 through the insertion of requirements in another IPSAS. It was emphasized that some respondents had challenged the Board to justify the proposed scope exclusion. It was clear from the

submissions that the current rationale in the Basis for Conclusions does not provide an adequate rationale to justify that exclusion.

It was agreed that subsequent to the meeting, Members would provide reasons for their views on whether property, plant and equipment carried under the revaluation model in IPSAS 17 should be within the scope. It was also agreed that the question of whether biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs and non-current assets (or disposal groups) held-for-sale should be within the scope should be deferred until the main scope exclusion issue had been settled.

The proposal to depart from IAS 36 and not to include a definition of, or requirements relating, to corporate assets was discussed. Some Members and Technical Advisors challenged the Staff view that it would be very rare to find assets in the public sector apart from Government Business Enterprises (GBEs), which are not cash-generating in themselves and contribute to a number of cash-generating units (CGU), but not to non-cash-generating activities. Staff was directed to insert a rebuttable presumption that an entity would not have assets which, whilst not cash-generating themselves, would contribute to more than one CGU, but not to non-cash-generating activities. Where that presumption is rebutted the Standard will direct users to the relevant international and national accounting standards dealing with assets that do not generate cash flows independently of other assets and form part of more than CGU but do not contribute service potential to non-cash-generating activities (corporate assets).

Members also gave directions on the other issues identified by Staff as follows:

- goodwill should be within the scope but that there should not be detailed requirements. There will be a reference in the scope section directing users of the IPSAS to relevant international and national accounting standards dealing with the impairment of goodwill and the allocation of goodwill to CGUs for impairment testing purposes;
- the definition of cash-generating assets in paragraph 14 as assets “held with the primary objective of generating a commercial return” is appropriate. A consequential amendment to IPSAS 21 will be inserted amending the current definition of a cash-generating asset in IPSAS 21;
- the definition of a cash-generating unit (CGU) in paragraph 14 should be amended to include a reference to the entity’s intention to operate the CGU with the primary objective of generating a commercial return;
- the commentary on identifying cash-generating assets in paragraphs 16-21 is broadly appropriate and should be retained, subject to editorial changes;
- noting the discrepancy between the level of detail on intangible assets in ED 30 compared with IPSAS 21, this issue should be considered when, or if, IPSAS 21 is revised;
- paragraphs 77 and 99, dealing with impairment losses that lead to recognition of liabilities, should be deleted;

- redesignation of an item from a cash-generating asset to non-cash-generating asset should not, of itself, be included in the list of minimum indications of impairment in paragraph 28; and
- the non-authoritative boxed examples in the body of the text should be deleted and Staff will consider whether the material justifies inclusion in Implementation Guidance.

## **6. EMPLOYEE BENEFITS**

Staff identified the discount rate for discounting post-employment benefit obligations to present value, as the major issue raised in submissions. Respondents had been almost equally divided over whether to support the proposal in the ED that the discount rate should be a risk-free rate determined by reference to market yields on government bonds, or by reference to high quality corporate bonds, where there is no deep market in government bonds, or where government bonds do not provide the best representation of a risk-free rate. Staff also highlighted submissions from 3 respondents who argued that, in adopting a discount rate based on market yields on high quality corporate bonds, the International Accounting Standards Board (IASB) had not aimed to select a rate to represent a risk-free rate. Some members agreed with those respondents who did not consider that there is a sufficient public sector rationale to depart from the requirements in IAS 19, *Employee Benefits*.

Strong reservations were expressed on using the discount rate as a method of capturing entities' options to reduce scheme liabilities. It was agreed that such options should be reflected in the forecasting of cash flows not through a premium for risk. It was also agreed that there is no case for the application of different discount rates to different levels of government within jurisdictions.

It was acknowledged that, whilst the Basis for Conclusions to IAS 19 contains a great deal of useful information on the IASB's deliberations in selecting an appropriate discount rate there is no clear-cut rationale for the selection of high quality corporate bonds. It was agreed that the draft IPSAS to be developed from ED 31 should adopt a high-level principles based approach and specify that the discount rate used for discounting post-benefit obligations should be a rate that reflects the time-value of money with a thorough explanation in the Basis for Conclusions.

Members directed to retain from ED 31 the:

- definition of, and requirements for, composite social security programs;
- disclosures including a disclosure on the discount rate and the basis of its selection; and
- scope, so that an IPSAS includes short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits.

Directions were also given as follows:

- retaining options for recognizing actuarial gains and losses as in IAS 19, but that in light of the imminent consequential amendment to IAS 19 as a result of the revised

IAS 1, *Presentation of Financial Statements* the Statement of Net Assets/Equity should not be re-termed the Statement of Recognized Revenue and Expense when actuarial gains and losses are recognized outside the statement of financial performance;

- retaining paragraph 57 of ED 31 which states that “where required by IPSAS 20, *Related Party Disclosures* an entity discloses information about contributions to defined contribution plans”, even though currently there are no such disclosure requirements in IPSAS 20;
- deleting the sentence in paragraph 35 on common rates being a possible indication that there may be no consistent and reliable basis for allocating the obligation;
- deleting commentary in paragraph 121 that reimbursements might arise from the commitments of member bodies to supra-national organizations;
- requiring all actuarial gains and losses related to initial liabilities to be recognized in accumulated surpluses/deficits in order to facilitate an orderly implementation;
- requiring boxed examples in the text drawn from IAS 19, be made authoritative.
- not providing guidance for entities operating in jurisdictions where there is neither a deep market in government bonds nor high quality corporate bonds; and
- not re-classifying long-term disability benefits as post-employment benefit obligations or to delete long-term disability benefits from the list of examples of other long-term benefits.

Staff were also asked to draft paragraphs illustrating an approach where in cases of plans under common control, only the controlling entity would be required to account on a defined benefit basis with controlled entities being permitted to account on a defined contribution basis on condition that information on the availability of the controlled entity’s financial statements is provided.

The IPSASB also considered whether the implementation arrangements proposed in paragraphs 164-175 of ED 31 should be retained. Some members felt that the five-year lead time was excessive and might mean that an IPSAS on employee benefits would not have taken effect by the time that the IASB issues a revised IAS 19. Whilst acknowledging these views, it was decided to retain the proposals for the lead-time and the relief from providing comparative information in the first year of adoption on the grounds that in many jurisdictions entities would find the requirements challenging and the full five-year lead time would be necessary to facilitate an orderly implementation. Early adoption was encouraged.

It was agreed that Staff would circulate a draft IPSAS based on ED 31 in August.

## **7. UPDATING IPSASs**

### *IPSAS 4: The Effects of Changes in Foreign Exchange Rates*

The IPSASB agreed with the proposed changes to IPSAS 4 though requested replacing the term “dividend(s)” in renumbered paragraphs 17 and 58 with the term “dividend(s) or similar distribution(s)”.

It was suggested the following be considered relating to the “Comparison with the IAS”:

- indicating the reference number of the paragraphs where there is commentary additional to that in the equivalent IAS; and
- referencing terms in the equivalent IAS would need to be changed as a consequence of revising IAS 1 which will soon be issued.

It was felt these suggestions would affect all the new, revised as well as existing IPSASs and might need to be considered in the context of the “Rules of the Road”.

Given that the proposed changes to IPSAS 4 are straightforward, staff was directed to develop a draft ED for circulation for approval before the November 2007 meeting.

#### *IPSAS 5: Borrowing Costs*

The key issue for the Board is convergence with revised IAS 23: *Borrowing Costs* resulting in elimination of the option to immediately expense borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset.

Some expressed the view that there are public sector specific reasons for retaining the expensing option, the main reasons being:

- Central borrowing procedures as described in paragraph 22 of IPSAS 5 are common in the public sector. Due to the complexity and difficulty of capitalizing the costs of funds borrowed centrally, many public sector entities usually expense such costs. It is therefore questionable for some public sector entities whether removal of the option might give rise to compliance costs greater than the related benefits.
- A practical problem relates to internally constructed assets measured at a revalued amount using Depreciated Replacement Cost (DRC). At present, public sector entities that have assets under construction usually hold these assets at DRC. These entities usually also have directly attributable borrowing costs, which are currently expensed. Given the fact that there is no guidance and/or little experience in how to determine an appropriate borrowing cost element in a DRC valuation, capitalization of borrowing costs would be, in such cases, an arbitrary exercise.
- Converging IPSAS 5 with the statistical bases which generally treats borrowing costs as an expense.

Some believe the central borrowing scenario can also occur in the private sector and therefore is not a strong enough reason for maintaining that option. It was also noted that removal of options should achieve higher comparability among entities and therefore improve the quality of financial information.

A member questioned whether the scope exclusion for “a qualifying asset measured at fair value” set out in the revised IPSAS 5 and IAS 23 means that a qualifying asset measured at a revalued amount is not required to include capitalized borrowing costs in its revalued amount. The member indicated that if a qualifying asset measured at the

revalued amount was excluded from capitalizing borrowing costs, their concern over the reliability of DRC valuations would be largely addressed.

In relation to other aspects of the draft revised IPSAS 5, there were suggestions and observations including:

- the term “outlay(s)” should be retained in IPSAS 5 as the term “expenditure(s)” has a particular meaning in the public sector context that is not appropriate for IPSAS 5;
- the words “or distribution (non-exchange transactions)” should be added to the end of the definition of “a qualifying asset”;
- consideration should be given to whether paragraphs 17-20 retain references to optional capitalization of borrowing costs in the draft revised standard.

A request was made that consideration be given to whether the original decision, when developing existing IPSAS 5, to entirely exclude the sentence “Expenditures are reduced by any progress payments received and grants received in connection with the asset” in IAS 23 is appropriate.

It was requested that an issues paper be developed for November 2007 to further consider whether to remove the option of expensing. The paper will further investigate the arguments for departure from IAS 23 with views as to their adequacy. Further, the paper might provide material for the Basis for Conclusions.

#### *IPSAS 18: Segment Reporting*

Staff proposed IPSAS 18 be revised to converge with IFRS 8: *Operating Segments* to a higher extent than with IAS 14, *Segment Reporting*.

A number of members expressed concern about whether the basis of the approach in IFRS 8 is readily transferable to the public sector. An example raised was the difficulty in identifying the chief operating decision maker in public sector entities.

Some members noted that a revision to IPSAS 18 may be linked to the Conceptual Framework project. Further, some were of the view that segment reporting should be dealt with as a public sector specific project rather than IFRS convergence.

The Board felt that this project should be deferred as a public sector specific project at this time. They agreed that existing IPSAS 18 be retained unchanged and that for November 2007, a timetable be developed for its potential future updating. The timetable will consider links with the conceptual framework project.

## **8. FINANCIAL INSTRUMENTS**

The IPSASB considered a draft exposure draft (ED) proposing to converge IPSAS 15 *Financial Instruments: Disclosure and Presentation* with IAS 32 *Financial Instruments: Presentation*. It was agreed staff had fulfilled the directions given at the March 2007 meeting. However, on further reflection the Board now believes that consideration

should be given to including in the ED a proposed IPSAS that converges with IFRS 7 *Financial Instruments: Disclosure*.

The IPSASB questioned whether the Implementation Guidance and Illustrative Examples in the draft ED were appropriate in a public sector. They asked staff to consider whether these items should be further revised/omitted from the proposed ED.

The Board noted the draft ED does not exclude from its scope items within the scope of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* or the social benefits ED. Staff were asked to prepare a paper analyzing the impact of excluding non-exchange transactions from the scope.

It was agreed that at its next meeting, the Board would consider:

- a revised draft ED of a revised IPSAS 15 which converges with IAS 32 but which also proposes issuing a new IPSAS based on IFRS 7; and
- a staff paper analyzing the impact of excluding financial instruments arising from non-exchange transactions from any financial instrument IPSASs.

## **9. SERVICE CONCESSIONS**

The subcommittee chair introduced project staff thanking them for their work, in particular, the US member and his staff for their work in developing the research paper. The subcommittee chair then provided an overview of both the subcommittee's progress to date and the content of the research paper. Staff led discussions relating to the questions in the accompanying issues paper advising that the focus of the questions related to scope – ensuring that the staff/subcommittee's understanding of various aspects of PPP arrangements was appropriate and complete.

Staff reminded the Board that in accordance with the project brief, the consultation paper was not to be constrained in its review/development of approaches for determining the most appropriate accounting for PPPs. However, staff acknowledged questions relating to symmetry or aligning guidance with principles/concepts already embedded within the IPSASB Handbook would have to be considered as the project progresses.

### *Types of Arrangements to be Addressed*

The Board felt that it would be almost impossible to capture all the possible types of PPP arrangements that a government could get involved with. As such, it would be more useful for the consultation paper to focus on determining key 'characteristics' of a PPP. It was generally considered that privatization did not fit well within the concept of a PPP.

A member noted that if a graphical representation of PPP arrangements was to appear within the consultation paper (as it does within the research paper), that the subcommittee ensure any supporting explanation mirrors all the arrangements reflected on the graph.

In determining the characteristics of a PPP, the Board raised a number of suggestions for either a criteria, or alternatively, provided notions/concepts which, they believe, should be considered further by the subcommittee in drafting the consultation paper:

- Profit motive: Generally, private parties to the arrangement will be seeking a profit, though it was noted that this might not always be the case.
- Public service: The fact a government is involved in an activity may not automatically translate into that activity being a ‘public service’. It was suggested the subcommittee may find this distinction useful, particularly with respect to what is an essential public service, as it develops the consultation paper.
- Risk allocation: It was noted that the graphical representation provided in the research paper while being helpful, did not highlight the allocation/transfer of risks between the parties along the continuum of PPP arrangements. Such an analysis could be helpful in considering the key characteristics of these arrangements.
- PPP output: In determining scope, the type of output from the arrangement (asset, service, both) may be a significant factor.
- Asset mobility: The mobility of the assets subject to an arrangement be a factor in determining the existence of a PPP. For example, an arrangement involving movable property could be more akin to contracting-out than a PPP. Arrangements involving immovable property (infrastructure) could more likely be in the realm of a PPP.
- Concession vs Regulation.

The Board then considered the relevance of public-public partnerships for the consultation paper. By definition such arrangements would appear to fall outside the scope of the project. However, given their similarity to public-private partnerships, the Board felt that the consultation paper should give consideration to such arrangements. In accordance with the scope of the project brief, the consideration should not be limited to one party in the arrangement, but consider the arrangement in totality with greater emphasis given to accounting for the grantor.

#### *Accounting and Financial Reporting Issues to be Addressed*

Overall, the Board confirmed that there were no significant additional accounting and financial reporting issues in addition to those raised in the research paper. One member reiterated the need for the consultation paper to take into consideration the accounting impact of ‘stand-ready obligations’. Furthermore, a commitment was made by at least one member to provide some additional thoughts related to accounting issues to the subcommittee off-line.

In considering the numerous approaches for accounting for PPP arrangements in the research paper, a member noted that an analysis of those numerous approaches to a class of PPP transaction(s) in their jurisdiction, rendered a very similar accounting result under each. They agreed to provide the paper to staff to assist in drafting the consultation paper.

Another member advised that they were considering an alternative approach to accounting for PPPs flowing from the notion of the ‘institutional function’ – an idea

embedded within proposed guidance of the South African Accounting Standards Board. They advised they would provide further feedback to the subcommittee on this approach at a later date.

The Board then briefly discussed the various approaches/models for accounting for PPP arrangements with particular interest given to the ‘risk and rewards’ approach with the notion put forward that under risks and rewards, in substance the public sector will generally be responsible.

*Symmetry with IFRIC 12, Service Concession Arrangements*

The Board confirmed the position established in the project brief, that the drafting of the consultation paper is not to be confined by symmetry in relation to IFRIC12. However, the Board did note the consultation paper would be expected to consider issues related to symmetry with IFRIC 12 in formulating its proposals.

*Next Steps*

Staff updated the Board on next steps for the project noting that a draft of the consultation paper would be sent to Board members prior to the next meeting for comment – the date for which was yet to be finalized though mid-September was targeted.

In considering the layout of the future consultation paper, the subcommittee chair indicated that the paper would discuss the pros and cons of the numerous accounting approaches raised within the research paper with the objective of delivering a subcommittee view on the key issues. There was some discussion as to the appropriateness of presenting a subcommittee view at this stage of the project though it was noted that it is reasonable for the subcommittee to try to.

An observer noted based on their experience in dealing with this topic that once the consultation paper had been issued, that staff should be prepared for a large number of responses from a group broader than the IPSASB’s traditional constituency.

**10. EXTERNAL ASSISTANCE**

The IPSASB noted that significant efforts had been undertaken to identify partners to field test ED 32, “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance”

Field tests had been completed in Ghana, Uganda and Nigeria. On preliminary review of field test reports, it appeared that the field testing had not identified major impediments to adoption of the proposed IPSAS requirements within the proposed transitional period. The IPSASB also noted field testing was still in progress in Kenya. In addition members and staff continued to liaise with a number of potential field test partners.

The IPSASB discussed the strategy and process for completing the IPSAS and agreed that it could not wait beyond November 2007 for additional field test results. Accordingly, at its next meeting in November 2007, it would review a draft IPSAS and all field test results with a view to approving the IPSAS. Members also agreed that whether or not a special report to provide guidance to recipients and donors in establishing appropriate models for reporting on compliance should be developed would be considered in the context of a general work program review later in the year.

Members reviewed the responses to ED 32 and the staff analysis and summary thereof, and reviewed all substantial matters raised by respondents in respect of the specific matters for comment. Members agreed that the draft IPSAS to be prepared for review at the next meeting would:

- encourage, but not require, the disclosure of the identity of the individual providers of assistance and the amount provided;
- encourage, but not require, the disclosure of the uses of assistance by major class;
- reflect that the disclosure requirements are to be incorporated in the Cash Basis IPSAS, rather than in a stand alone IPSAS;
- amend the wording of official assistance to clarify that external assistance is provided by ex-domestic organizations and governments. It was also agreed that members from Japan and India would provide input to staff on issues that may arise in distinguishing official assistance from other assistance and that ultimately may be resolved by the application of professional judgment;
- require the disclosure of “third party payments” that satisfy the definition of external assistance on the face of the Statement of Cash Receipts and Payments or in the notes;
- retain the existing focus on official assistance, but commentary should explain that assistance from non-government organizations (NGOs) would be recognized and disclosed in accordance with the general requirements of the Cash Basis IPSAS. Members also agreed that the draft IPSAS should encourage, but not require, application of the proposed requirements to assistance received from NGOs;
- retain the encouragements relating to disclosure of the significant terms and conditions, and not reclassify them as requirements;
- require that balances of undrawn assistance be disclosed when, and only when, the amount is specified in a binding agreement and the satisfaction of conditions is anticipated – for example, in respect of undrawn balances of project funding where conditions have previously been satisfied and the project is anticipated to continue;
- encourage, but not require, disclosure of terms and conditions which determine or affect access to, or use of, external assistance. In addition, the existing requirement to disclose terms and conditions which had been breached and which resulted in cancellation of the assistance should be extended to encompass circumstances in which the breach gave rise to an obligation to return funds;
- retain the encouragement to disclose the value of external assistance in the form of goods and services; and
- retain the transitional provisions as currently specified.

Members also agreed that the:

- editorial and other matters identified by respondents should be dealt with as proposed by staff and reviewed at the next meeting;
- draft IPSAS developed from this meeting should be translated into Spanish and made available to potential field test partners in Latin America. IPSAS members from Argentina and Mexico agreed to subject the translation to a technical review; and
- materials prepared for review at the next meeting should include an analysis of all field test results received as at the end of October, and a report which summarizes the processes adopted to identify field test partners.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD  
ACTION LIST – JULY 2007 MEETING**

<b>Action Required</b>	<b>Person(s) Responsible</b>	<b>Date to be Completed</b>
<p><b>1. Conceptual Framework</b></p> <ul style="list-style-type: none"> <li>• Consultation paper(s) reporting entity and qualitative characteristics to be distributed to IPSASB pre September subcommittee meeting for comment</li> <li>• Discussion of issues for reporting entity &amp; qualitative characteristics at IPSASB meeting</li> <li>• PS/SF/MH to call primary authors of reporting entity and qualitative characteristics around August 10</li> <li>• Prepare schedule of work over next few months to assess staff resource allocation and follow up NSS offers of help for Group 2 work</li> </ul>	Sutcliffe/Fox	<ul style="list-style-type: none"> <li>• September 2007</li> <li>• IPSASB November 2007</li> <li>• August 10, 2007</li> <li>• July 31, 2007</li> </ul>
<p><b>2. Social Benefits:</b></p> <ul style="list-style-type: none"> <li>• Revise Consultation Paper to address how current position derived and alternative views on specific accounting issues. Draft for circulation to IPSASB for comment.</li> <li>• Mark-up of ED on disclosure to be distributed to IPSASB for comment.</li> <li>• Project brief on long term fiscal sustainability to IPSASB</li> </ul>	Stanford	<ul style="list-style-type: none"> <li>• September 2007</li> <li>• Mid-August 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>3. Rules of the Road:</b></p> <ul style="list-style-type: none"> <li>• Correspond with NSS re their “rules” for convergence</li> <li>• Fill in details of the rules</li> <li>• Distribute paper to IPSASB for comment pre November</li> <li>• Final policy document to be approved</li> </ul>	Fox	<ul style="list-style-type: none"> <li>• July 2007</li> <li>• July/August 2007</li> <li>• Pre Sept 15, 2007</li> <li>• IPSASB November 2007</li> </ul>

Action Required	Person(s) Responsible	Date to be Completed
<p><b>4. Impairment Cash Generating Assets</b></p> <ul style="list-style-type: none"> <li>• Contact members for views on scope issue</li> <li>• Revise ED to reflect outcome of internal consultation on scope and directions on other issues</li> <li>• Draft IPSAS (approval dependent on feedback and agreement on scope issue)</li> </ul>	Stanford	<ul style="list-style-type: none"> <li>• July 2007</li> <li>• September 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>5. Employee Benefits:</b></p> <ul style="list-style-type: none"> <li>• Revise ED to reflect directions on principles-based approach to discount rate and other issues</li> <li>• Mark-up of draft IPSAS to be distributed to IPSASB for comment</li> <li>• Draft IPSAS for approval by the IPSASB</li> </ul>	Stanford	<ul style="list-style-type: none"> <li>• July/August 2007</li> <li>• August 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>6. Updating IPSASs:</b></p> <ul style="list-style-type: none"> <li>• <i>IPSAS 4 FX – finalize ED and circulate to IPSASB for approval</i></li> <li>• IPSAS 5 Borrowing costs – analysis of public sector differences for Basis for Conclusions for consideration by the IPSASB.</li> <li>• IPSAS 18 Segment reporting – do not amend at this time; consider timetable in the context of outcomes of conceptual framework project and staff resources.</li> </ul>	Zhang	<ul style="list-style-type: none"> <li>• <i>IPSASB July 2007</i></li> <li>• IPSASB November 2007</li> <li>• IPSASB November 2007</li> </ul>

<b>Action Required</b>	<b>Person(s) Responsible</b>	<b>Date to be Completed</b>
<p><b>7. Financial Instruments:</b></p> <ul style="list-style-type: none"> <li>• Disclosure in IFRS 7 to be addressed</li> <li>• Analysis of issues e.g. terminology &amp; others raised by members</li> <li>• ED for review that includes disclosure of IFRS 7 and presentation of IAS 32</li> </ul>	Bohun	<ul style="list-style-type: none"> <li>• November 2007</li> <li>• November 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>8. Service concessions/PPPs</b></p> <ul style="list-style-type: none"> <li>• Draft consultation paper developed &amp; distributed to IPSASB for comment</li> <li>• Comments on consultation paper analyzed &amp; final draft for approval at IPSASB November meeting.</li> </ul>	Naik	<ul style="list-style-type: none"> <li>• September 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>9. External assistance:</b></p> <ul style="list-style-type: none"> <li>• Draft IPSAS developed based on directions on issues</li> <li>• Draft IPSAS translated to Spanish (review by Luna Rodriguez &amp; Palladino)</li> <li>• Follow up of field testing</li> <li>• Final draft IPSAS for approval at IPSASB November meeting.</li> </ul>	Sutcliffe	<ul style="list-style-type: none"> <li>• July 2007</li> <li>• August 2007</li> <li>• August 2007</li> <li>• IPSASB November 2007</li> </ul>
<p><b>10. Communications/Other</b></p> <ul style="list-style-type: none"> <li>• Reporting format for Country Report activities</li> <li>• Schedule of all documents to be issued for consultation including timing for response</li> </ul>	Fox	<ul style="list-style-type: none"> <li>• IPSASB November 2007</li> <li>• July 15, 2007</li> </ul>