



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item  
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**DATE:** November 23, 2011  
**MEMO TO:** Members of the IPSASB  
**FROM:** Stephenie Fox  
**SUBJECT:** Work Plan

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**Objectives**

- To **decide** on the priority of projects to be initiated over the next year; and
- To **review** the IPSASB agenda schedule for 2011-2013.

**Agenda Material**

- 4.1 Project brief – Emissions Trading Schemes
- 4.2 Project brief – Government Business Enterprises
- 4.3 Project brief – Social Benefits
- 4.4 IPSASB Agenda Schedule 2011-2013

**Background**

1. The IPSASB has set out the following strategic priorities for the period 2010-2012:
  - Public sector conceptual framework;
  - Public sector critical projects; and
  - Communications and promoting adoption and implementation.
2. During the past year the IPSASB has discussed the work plan a number of times, most recently in June 2011. At that meeting the IPSASB agreed discussed six projects that had been identified at the March 2011 meeting and provided feedback and decisions on these projects as summarized below. Decisions on each project considered are highlighted in italics.

***Accounting for the impact of natural disasters***

There was some interest in a project on accounting for the impact of natural disasters but there was reluctance to devote scarce staff resources to a full-fledged project. It was decided that case studies be prepared based on actual experiences and that these could be reviewed by the board at a future meeting. Two members offered to assist with this and highlighted that these may result in further work or additional projects by the board.

*This will therefore not be initiated as a full-fledged project.*

***Emissions trading schemes***

Staff had highlighted that a project may be able to be coordinated with the IASB's project and in fact some discussions have already been held at the staff level. Members were encouraged by this potential opportunity to partner with the IASB and agreed that the timing of the project should be coordinated with the IASB's work. This would likely not be until late 2012 and would depend on the results of the IASB's consultations on their future agenda. The project should be collaborative, not simply a project that mirrors the IASB approach.

*The IPSASB decided to monitor IASB activities in this area with a view to partnering with them at a future time.*

***First time adoption***

There was strong support for this project in the context of assisting with adoption of IPSASs. The need to provide guidance for the move from cash to accrual IPSASs was discussed as well as broadening the project to include transitioning to accrual accounting similar to IPSASs.

*The IPSASB agreed to initiate this project and proposed changes to the project brief. A revised project brief was approved by the members off-line and posted on the website.*

This project has recently commenced and is being staffed by Jens Heiling. The task based group is currently comprised of Anne Owuor, Sheila Fraser and Mariano D'Amore. It is expected that this project will be first considered by the IPSASB in March 2012.

***Government business enterprises***

Many members supported a project on GBEs especially noting significant concerns and challenges with the definition of a GBE. Many saw the project as related to both the first time adoption and GFS projects. There was a suggestion to address the definition only in the project and then deal with consolidation in the consolidations project.

*The IPSASB decided to defer a decision on this project at the June meeting.*

***Alignment of IPSASs and public sector statistical reporting (GFS)***

Staff noted that for the GFS project there is an immediate opportunity to work with the IMF and this project would contribute towards the boards' strategy of harmonizing where possible with GFS.

There was strong support for the project by the IPSASB. While it is not overly relevant in some parts of the world (notably North America) its importance in much of the world was acknowledged and therefore members were generally supportive.

*The IPSASB agreed to initiate this project and proposed changes to the project brief. A revised project brief was approved by the members off-line and posted on the website.*

This project has recently commenced and will be discussed further at this meeting. It is being staffed by Gwenda Jensen. The task force is comprised of John Verrinder, Lindy Bodewig, Marta Abilleira, Sage de Clerck, Thomas Müller-Marquès Berger, Tim Youngberry and Andre Schwaller, with Ian Carruthers as the Chair.

### ***Social benefits***

Views on initiating this project were mixed. While virtually all members acknowledged the importance of the project for the public sector many thought it could not be significantly progressed until phase 2 of the conceptual framework makes further progress. It was noted that work is being done in the area with respect to phase 2 of the framework as well as the long term sustainability project. The need to communicate with constituents about the project if not commenced was highlighted.

Other members expressed concern that the project is being avoided because it is so challenging. The fundamental importance of the project to the public sector is an adequate reason for commencing work urgently.

Ultimately three possible approaches to the social benefits project were outlined. The first was to delay the project past 2012 until further progress on phase 2 of the conceptual framework is made. The second was to add it to the work plan immediately. Finally, the third was provide an education session to the board in September 2011 on the project history and an assessment of why it failed and what could be done to move forward and when.

*The IPSASB chose the third option and an education session was held in September 2011. It was agreed to defer a decision on whether or not to initiate the project until the December 2011 meeting, when it would be considered along with other projects not yet approved.*

3. To summarize, the IPSASB approved projects on *First Time Adoption* and *Alignment of IPSASs and Public Sector Statistical Reporting (GFS)*. The board agreed to develop case studies on *Accounting for Natural Disasters*. That leaves three of the six projects previously considered – *Emissions Trading Schemes (ETS)*, *Government Business Enterprises (GBEs)* and *Social Benefits*. The IPSASB had agreed in June to monitor the ETS project and to consider again in 2012 based on IASB activities. Since this planning session is so close to the end of 2011, staff believes that the ETS

project needs to be further considered at this time along with GBEs and Social Benefits.

### **Further Project Selection**

4. In considering project selection in June 2011 it was recommended by staff that three projects in total could be initiated. Since two were approved and have commenced, there remains an additional project to approve. However, subsequent to the September 2011, meeting certain events have occurred that need to be considered in the context of further project selection.
5. Firstly, staff has been informed of the contribution of additional staff resources by New Zealand. As you are aware, New Zealand is transitioning to the adoption of IPSASs and they have offered the services of Joanne Scott for the project for updating IPSASs 6-8 (consolidated and separate financial statements, investments in associates and interests in joint ventures). Details are still being finalized but Joanne will be available to commence work on the project in 2012. This project had been allocated to Annette Davis and has now been reassigned and the work plan adjusted to reflect Joanne's availability. This means that staff resources will allow for two additional projects to start in 2012.
6. In addition, as you are aware, IFAC has recently signed a Memorandum of Understanding with the IASB to enhance collaboration between the organizations, including working more closely with the IPSASB. Recent discussions with the leadership of the IASB indicate that joint collaboration on projects where possible and appropriate is to be encouraged.
7. At this meeting the IPSASB is asked therefore to consider which two of the three projects identified (ETS, GBEs and Social Benefits) should be initiated during 2012.

### **Considering the Projects**

8. In considering which additional two projects to initiate there are a number of factors to be considered, including staff resources, difficulty and length of projects, and the need to balance competing needs, such as importance to the public sector and achievability. Some factors previously discussed are outlined below.
9. Work on the ETS project does to some extent depend on the activities of the IASB in this area. In conversations with the IASB Vice Chair, he noted that significant work has been done in this area and that there is some thought that it should therefore be reactivated. Of course final decisions will depend on the results of the consultations on the IASB future agenda. This is an area that is important in the public sector and one which we have done little work on to date. It would take some effort to undertake the background work to get "up to speed" with the IASB in the event that they decide to reinstate this project. If we were to undertake that work we would be well positioned to collaborate with the IASB. Given the MoU this could be a positive foray into a venture with the IASB. If the IASB decides against the project, that does

not negate the importance of the topic to the public sector and the board could consider at that time it's next steps.

10. The GBEs project was initially discussed in 2008 and deferred. However, Board discussions over the past two years in a number of areas have highlighted pressures on the definition of GBEs. In June there was strong support for the project and many saw a relationship to the First Time Adoption and Alignments projects, both of which have been initiated. There was also some suggestion at that time to narrow the scope of the project as set out in the project brief and address the definition only in the project and deal with consolidation in the consolidations project, a project also in progress. Overall, given the relationship with other projects in process this may be an opportune time to finally deal with the issues surrounding GBEs.
11. The board spent a significant portion of the September 2011 meeting learning about social benefits and the project's history. The board will also be further considering responses to phase 2 of the conceptual framework project at this meeting and may have a better sense based on those agenda papers as to whether the timing would be appropriate for initiating the social benefits project at this time. Regardless of that decision, the board may also want to consider further communication activities around social benefits which would highlight that significant work of various sorts continues to be done by the IPSASB in this area.



## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

### PROJECT BRIEF AND OUTLINE

#### **1. Subject—Emissions Trading Schemes**

- 1.1 This project will develop requirements and guidance on accounting for emissions trading schemes.
- 1.2 Existing IPSASs do not specifically address the accounting for emissions trading schemes. IFRSs also do not specifically address the accounting for emissions trading schemes. The IASB and the FASB have a joint project to consider the accounting for emission trading schemes, but in November 2010, agreed to defer further deliberations until after June 2011. In the second half of 2011, the IASB will undertake a consultation on its agenda so it is unlikely that their joint project on emissions trading schemes will recommence in 2011.
- 1.3 Many jurisdictions have introduced Emissions Trading Schemes as a way to encourage a reduction in greenhouse gas emissions. The schemes generally involve the allocation of a limited number of allowances at the start of a defined period of time (compliance period) and require entities to have sufficient allowances at the end of the compliance period to cover the volume of emissions made. There are statutory and non-statutory schemes. Statutory schemes are government imposed and require mandatory participation of entities that emit greenhouse gases. Non-statutory schemes are voluntary in nature.
- 1.4 A public sector entity could set up, and be the administrator of, a scheme which means it could issue permits or allowances to emit to participants of the scheme, facilitate a trading mechanism for the permits or allowances and reconcile the surrender of permits or allowances at the end of the commitment period. A public sector entity could also be a participant in a scheme where it is an emitter of greenhouse gases. This project includes in its scope the accounting treatment for both types of transactions or other events.

#### **2. Project Rationale and Objectives**

- 2.1 There are numerous emissions trading schemes and currently limited guidance exists on how to account for the set up, and administration of, a scheme. In order to enhance consistency and comparability of emissions trading schemes in the financial statements of public sector entities, the IPSASB should undertake a project to determine the appropriate accounting treatment.
- 2.2 For private sector entities that are participants in a scheme, there are a number of accounting models that are currently in use and an entity needs to determine the most appropriate model to use and adopt that as its accounting policy. This diversity in practice is one of the reasons that the IASB and the FASB have a joint project on this topic. By analogy, a public sector entity that is a participant in a

scheme could select one of these accounting models. The IPSASB should also include the accounting treatment for the participant in an emissions trading scheme so that there is no diversity in practice for public sector entities.

**(a) Issues identified**

2.3 There are a number of issues that will need to be considered in progressing this project. The major issues are:

2.5.1 How should the IPSASB approach this project?

2.5.2 What is the appropriate scope of the project?

2.5.3 What is the appropriate accounting treatment for emissions trading schemes?

**(b) Objectives to be achieved**

2.4 The ultimate objective of the project is to issue an IPSAS on emissions trading schemes.

2.5 The intermediate objective is to produce a Consultation Paper. The Consultation Paper will address the scope of the project and possible accounting treatments for emissions trading schemes.

**(c) Link to IFAC and IPSASB Strategic Plans**

*i. Link to IPSASB Strategy*

2.6 One of the IPSASB's strategic priorities for the period 2010–2012 is public sector critical projects which could be either public sector specific or IASB convergence projects. The development of an IPSAS for the set up and administration of a statutory emissions trading scheme is a public sector specific project. The development of an accounting treatment (within an IPSAS) for public sector entities that are participants in an emissions trading scheme could be either public sector specific or an IASB convergence project.

*ii. Link to IFAC Strategic Plan*

2.7 The IFAC Strategic Plan for 2011–2014 includes two strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Considering issues relating to emissions trading schemes supports both of these strategies.

**3. Outline of the Project**

**(a) Project Scope**

3.1 The scope of this project is to determine the appropriate accounting treatment for the:

- 3.1.1 Set up and administration of a statutory emissions trading scheme; and
- 3.1.2 Participant in an emissions trading scheme.

**(b) Major Problems and Key Issues that should be addressed**

- 3.2 In addition to the key issues set out below, the development of the project may identify further key issues.

*Key Issue #1—How should the IPSASB approach this project?*

- 3.3 A key issue will be to determine how the IPSASB should approach this project. It could, by analogy to the service concessions arrangement project, wait until the IASB and the FASB has completed its joint project and then develop guidance that “mirrors” their guidance. It could investigate whether it is feasible to undertake the project together with the IASB and the FASB. Or it could separately undertake the project, independently of developments in the IASB and the FASB’s project.

*Key Issue #2—What is the appropriate scope of the project?*

- 3.4 A key issue will be to determine the appropriate scope of the project. The scope could be limited to the accounting treatment of the set up and administration of a statutory emissions trading scheme. It could be expanded to encompass the accounting treatment for participants in a scheme. It could also be expanded to include the accounting treatment of the set up and administration of a voluntary scheme.

*Key Issue #3—What is the appropriate accounting treatment for emissions trading schemes?*

- 3.5 A key issue will be to determine the appropriate accounting treatment for transactions and other events related to an emissions trading scheme. This includes items such as the initial recognition and measurement of the issue of allowances, subsequent measurement of allowances and the timing of recognition and measurement of a liability related to the amount of emissions made.

**4. Describe the Implications for any Specific Persons or Groups**

**(a) Relationship to IASB**

- 4.1 This project will encompass the accounting treatment of participants in emissions trading schemes. The IASB, jointly with the FASB, are also undertaking a project on this topic.

**(b) Relationship to Other Standards, Projects in Process or Planned**

- 4.2 Dependent upon the outcome of this project, there may be implications for several IPSASs such as IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* and IPSAS 31, *Intangible Assets*. As the project develops, potential implications for other IPSASs may also be identified. At this stage (May 2011),

there are no IASB pronouncements that are relevant to this project. The actions of the IASB will be monitored as the project develops.

**(c) Other—Government Finance Statistics**

4.3 One aspect of the IPSASB’s strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. This project will explore how emissions trading schemes are accounted for under the statistical basis and whether there are opportunities for the accounting treatment to be similar to that used for the statistical basis of accounting.

**5. Development Process, Project Timetable and Project Output**

**(a) Development Process**

5.1 The development of outputs will be subject to the IPSASB’s formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

**(b) Project timetable**

<b>Major Project Milestones</b>	<b>Expected Completion</b>
Present draft Project Brief	June 2011
Undertake research on types of schemes (September 2011–March 2012)	
Discussion of issues and development of a Consultation Paper (CP) (March 2012–September 2012)	
Approve CP (6 month comment period)	September 2012
Review of responses to CP and development of an Exposure Draft (April 2013–March 2014)	
Approve ED (4 month comment period)	March 2014
Review of responses to ED and development of a IPSAS	
Approve Final IPSAS	2015

**(c) Project output**

5.2 The initial output will be a Consultation Paper. The ultimate output will be an IPSAS.

**6. Resources Required**

**(a) Task Force/Subcommittee**

6.1 A Task Based Group may be required to assist in providing information on the broad range of emissions trading schemes that have been formed.

**(b) Staff**

6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

**(c) Factors that might add to complexity and length**

6.3 Factors that might add to the complexity and length of the project include:

6.3.1 The wide range of emissions trading schemes.

6.3.2 The relative lack of existing guidance on emissions trading schemes.

6.3.3 The interaction between this project and the development of the Conceptual Framework; and

6.3.4 The interaction between this project and the joint IASB-FASB project.

**7. Important Sources of Information that Address the Matter being Proposed**

7.1 Potential sources of information regarding emissions trading schemes include:

7.1.1 The joint IASB-FASB project.

7.1.2 Private sector publications on emissions trading schemes.

7.1.3 The Government Finance Statistics Manual (2001).

7.1.4 The System of National Accounts (SNA) 2008.



## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

### PROJECT BRIEF AND OUTLINE

#### 1. Subject—Government Business Enterprises (GBEs)

- 1.1. This project will explore issues with the current definition of government business enterprises and will consider whether the current accounting requirements are adequate.
- 1.2. The IPSASB has defined Government Business Enterprises (GBEs) as an entity that has all the following characteristics:
  - a) Is an entity with the power to contract in its own name;
  - b) Has been assigned the financial and operational authority to carry on a business;
  - c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
  - d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
  - e) Is controlled by a public sector entity.
- 1.3. The *Preface to International Public Sector Accounting Standards* states that “GBEs apply International Financial Reporting Standards (IFRS), which are issued by the International Accounting Standards Board (IASB)”. This reflects the view that GBEs are comparable with commercially-oriented private sector entities operating in the same economic sectors and therefore GBEs should apply the same standards as those private sector entities.
- 1.4. At whole-of government level the financial performance of GBEs can have a significant impact on consolidated financial performance and financial position. The global financial crisis has reinforced the significance of GBEs, particularly public finance corporations (in statistical accounting terminology) and the need for information that better meets the accountability objective of financial reporting. This issue was highlighted in the joint work with the International Monetary Fund on reporting governmental interventions during the financial crisis.
- 1.5. In 2008 and 2009 a number of Members expressed reservations about the robustness of the current approach to GBEs. The position of GBEs was also discussed at one of the early IASB-IPSASB Liaison meetings. Following discussion at the IPSASB's Zurich meeting in October 2008 it was decided not to activate a project on GBEs on the grounds that there were more pressing priorities.

## **2. Project Rationale and Objectives**

- 2.1. The objective of the project would be to explore a number of issues raised with respect to GBEs and, if necessary, modify the current guidance to address these issues.

### **International Guidance on this Topic**

- 2.2. The IASB does not specifically address GBEs, though acknowledge that the accounting standards developed by the IASB are applied by GBEs.

### **National Guidance on this Topic**

- 2.3. Many National Standards Setters (NSS) have guidance on GBEs. While there are many similarities in definitions there are also differences in the definitions as well as in the accounting requirements. The project development will include identification and consideration of authoritative guidance in IPSASB Member's and other jurisdictions, as appropriate.

### **Issues identified**

- 2.4. It has been noted that the definition of GBEs includes not just profit seeking entities, but those whose financial objective is full cost-recovery. For these latter entities it may be questionable whether the requirements of IFRS are appropriate in areas such as impairment.
- 2.5. Other questions raised in relation to GBEs include whether the emerging emphasis on accountability in the conceptual framework project should lead the IPSASB to take a more active role in the monitoring and development of financial reporting requirements for GBEs. In particular it has been suggested that some additional requirements and guidance might be necessary for reporting non-financial information for GBEs.
- 2.6. Further issues identified include whether the control criterion in the definition is appropriate and consistency with statistical accounting bases.

### **Objectives to be achieved**

- 2.7. The ultimate objective of the project is to assess both the current definition of GBEs and whether the current accounting treatment is appropriate. As a result of this work amendments to the IPSASB Handbook may be required.

## **(c) Link to IFAC and IPSASB Strategic Plans**

### *i. Link to IPSASB Strategy*

- 2.8. As noted, this project was considered previously but was not initiated since the projects to develop a public sector conceptual framework and those to achieve substantial convergence with IFRSs were considered higher priority. Now that substantial convergence has been achieved and the public sector conceptual

framework has progressed significantly the issues identified in this project are once again being raised as a higher priority. GBEs are a public sector specific issue and so this project would correlate to the IPSASB's strategic theme of addressing public sector critical projects.

*ii. Link to IFAC Strategic Plan*

- 2.9. The IFAC Strategic Plan for 2011–2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Considering the issues around GBEs supports both of these strategies as the IPSASB addresses this public sector critical issue.

### **3. Outline of the Project**

#### **(a) Project Scope**

- 3.1. The scope of this project is to assess the existing definition and accounting treatment of GBEs and determine whether any changes to the current requirements are needed. In addition there is a need to consider whether guidelines for the disclosure of non-financial information by GBEs are needed in light of the enhanced accountability focus in the public sector.

#### **(b) Major Problems and Key Issues that Should be Addressed**

##### ***Key Issue #1— Aspects of the Definition of GBEs***

- 3.2. All GBEs are currently directed to apply IFRS rather than IPSAS on the basis that IFRS is a more appropriate set of standards for such entities. By definition, GBEs may be purely commercial enterprises within the public sector i.e. entities that are profit oriented. However, the definition also includes GBEs that aim to cover costs, not necessarily make a profit. For these latter entities it may be questionable whether the requirements of IFRS are appropriate in areas such as impairment, where the cash-flow emphasis of IAS 36, *Impairment of Assets*, might lead to potentially misleading carrying values. An entity that does not generate net cash flows would have assets carried at nil, which would not achieve the objectives of financial reporting in the public sector. One option might be for definition to refer to entities which aim to generate a commercial return only, so that it would no longer include entities that aim to just achieve full cost recovery. However, narrowing the definition needs careful consideration within the due process and there are other ramifications that could result.
- 3.3. Certain government controlled entities might be generally profit-seeking, but be required to provide some services to citizens on terms that require government transfers for the entities to continue as going concerns. Such requirements are known as “community service obligations” in some jurisdictions. It is not fully clear whether such entities meet the current definition of a GBE.

- 3.4. In terms of the of criteria to apply in determining whether something meets the definition of a GBE, some have expressed concern about the extent of professional judgment that is required and questioned whether additional guidance is needed. For example, if an entity has 85% of its activities break even or slightly profitable (either because of completion or government policy), with the remaining 15% being a community service obligation that requires continuing government funding for the entity to remain a going concern, is it a GBE? What about an entity that is genuinely trying to generate profits, but has been forced to run down equity by several years of losses in bad trading conditions?
- 3.5. Finally, during the global financial crisis governments established a number of approaches to addressing interventions. Work done throughout the IPSASB/IMF joint task force indicated that current IPSASs provide adequate guidance for all types of interventions. However, the issue has been raised of the risk of governments setting up special purpose vehicles (SPVs) to deal with their response to the crisis. Such entities could test the definitions of the “public sector” and GBEs. The project may need to consider the definition of a GBE in light of the results of the joint task force work.

***Key Issue #2—Controlled by a public sector entity***

- 3.6. Some concern has been raised about the appropriateness of the fifth criterion of the definition – that the GBE must be controlled by a public sector entity. The sense is that it is the definition of the public sector reporting entity that determines what is within the bounds of the reporting entity. Once organizations are determined to be within the entity, then the other criteria are applied to determine whether an organization is a GBE. It may therefore be that the control criterion is not needed to be applied to determine if an organization is a GBE.
- 3.7. This criterion might be modified in light of developments in the Conceptual Framework relating to the group reporting entity. This would need to be addressed in the project particularly as the current thinking is trending towards a movement away from the notion of control.

***Key Issue #3— Is the current approach to consolidation of GBEs appropriate?***

- 3.8. Under IPSASB, GBEs apply IFRS, and other public entities apply IPSASs. Though IPSASs are substantially converged with IFRSs, there are differences in the standards, many of them to reflect public sector specific circumstances. This means that the accounting policies applied by GBEs may be different from those applied by the controlling government. Under IPSAS 6, the controlling government would consolidate GBEs using uniform accounting policies for like transactions and other events, which will result in consolidation adjustments to conform the accounting policies of GBEs to those of the controlling government.
- 3.9. There are mixed views on the appropriateness of this and some have indicated the issue needs to be addressed.

***Key Issue #4—Accountability***

3.10. One of the significant differences emerging between the proposed IPSASB conceptual framework and the revised IASB framework is the emphasis on accountability. For the IPSASB this means that accountability has greater prominence and the capacity to address non-financial reporting within the framework is enhanced. As a result, it may be that in the future some additional disclosure requirements or other guidance may be required for GBEs, especially in regard to non-financial reporting, to address the accountability aspects of GBE activities.

***Key Issue #5—Statistical Basis***

3.11. The statistical community (IMF and Eurostat) have noted some concerns about the differences between the definition of GBEs in IPSAS 1 and public corporations in statistical reporting guidelines such as the Government Finance Statistics Manual 2001. These differences, as well as the different approach to control in statistical accounting, could be problematic. The project would need to explore further existing differences as well as considering the impact of any changes in the definition for accounting purposes.

**4. Describe the Implications for any Specific Persons or Groups**

**(a) Relationship to IASB**

4.1 GBEs currently apply IFRSs. Questions about whether it is appropriate for the IASB to, in effect, set standards for GBEs since they are public sector entities and may have different objectives than commercial enterprises mean that it is necessary to liaise with the IASB about GBEs to ensure that the objectives of financial reporting are satisfied through applying IFRSs.

**(b) Relationship to Other Standards, Projects in Process or Planned**

4.2 Currently the IPSASs do not apply to GBEs. Each IPSAS includes a scope exclusion for GBEs. If the research and analysis undertaken on GBEs results in a decision that IPSASs may be more appropriate for GBEs, consideration of whether the existing IPSASs need to be amended in any regard to specifically address GBEs needs to be considered. In developing the existing IPSASs the characteristics of GBEs were not considered. There may be a need to specifically consider these if bringing them into the scope of the IPSASs.

**(c) Other—Government Finance Statistics**

4.3 One aspect of the IPSASB's strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. As highlighted any changes in the definition and accounting treatment will need to be considered in the context of their impact on the statistical basis of accounting.

## **5. Development Process, Project Timetable and Project Output**

### **(a) Development Process**

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

### **(b) Project timetable**

<b>Major Project Milestones</b>	<b>Expected Completion</b>
Present Project Brief	June 2011
Discussion of issues and development of an Exposure Draft (ED)	March 2012
Approve ED (4 month comment period)	March 2012
Review of responses to ED and development of amendments to IPSASs	September 2012
Approve amendments to IPSASs	December 2012

### **(c) Project output**

- 5.3 The initial output will be an Exposure Draft. The ultimate output may be revisions to existing IPSASs.

## **6. Resources Required**

### **(a) Task Force/Subcommittee**

- 6.1 A Task Based Group will assist in exploring the issues.

### **(b) Staff**

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

### **(c) Factors that might add to complexity and length**

- 6.3 Factors that might add to the complexity and length of the project include:
- The wide range of GBEs that exist in the public sector.
  - The interaction with the IASB.
  - The interaction between this project and IPSAS 6 specifically in terms of how GBEs should be consolidated.
  - The interaction between this project and the development of the Conceptual Framework.

**7. Important Sources of Information that Address the Matter being Proposed**

7.1 Potential sources of information regarding GBEs include:

- a) National Standard Setters guidance on GBEs.
- b) The Government Finance Statistics Manual (2001).
- c) The System of National Accounts (SNA) 2008.
- d) ESA 95



## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

### PROJECT BRIEF AND OUTLINE

#### 1. Subject—Social Benefits

- 1.1 This project will develop requirements and guidance for accounting for social benefits.
- 1.2 The IPSASB initially launched a project on social policy obligations in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Government*, in November 2003. Following an analysis of responses the IPSASB began to develop proposals for the recognition and measurement of different sub-categories of social benefits. The IPSASB tentatively agreed an approach in which:
  - A present obligation for cash transfers arises when all eligibility criteria have been satisfied;
  - No present obligation arises for what were termed collective good and services such as defense and individual goods and services such as education and health care; and
  - The amount of the liability that arises from a present obligation for cash transfers is the amount that the entity has no realistic alternative but to settle;
- 1.3 The IPSASB subsequently redeliberated this approach. Due to failure to agree on recognition points and measurement requirements for liabilities the IPSASB decided not to develop further proposals on recognition and measurement. As an interim step the IPSASB developed an Exposure Draft (ED) dealing with the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not require the disclosure of liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households* was issued in March 2008. At the same time the IPSASB issued a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement* and a project brief, *Long-Term Fiscal Sustainability Reporting*.
- 1.4 In October 2008 the IPSASB reviewed responses to all the above documents. In the light of these responses, it was decided not to further develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the general purpose financial statements cannot convey sufficient information about the financial condition of governmental programs providing social benefits. In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed 'Reporting on the Long-term Sustainability of Government Finances'). This led to the issue of a Consultation Paper in November 2009.

- 1.5 The IPSASB decided that proposals for recognition and measurement of social benefits were closely linked to work in Phase 2 of the Conceptual Framework project dealing with elements and recognition, particularly the definition of a liability. The IPSASB therefore decided to defer further work on social benefits until the Conceptual Framework project was further advanced.

## **2. Project Rationale and Objectives**

- 2.1 Providing social benefits in non-exchange transactions is one of the most significant activities of many government and public sector entities. It is also one of the main areas that distinguishes the public sector from the for-profit private sector.
- 2.2 Currently, limited guidance exists on how to account for social benefits. Governments and public sector entities that recognize expenses and liabilities related to social benefits generally do so only for cash transfers on a 'due and payable' basis; that is to say liabilities are limited to installments for which all eligibility criteria have been met and which have not been settled at the reporting date. The lack of a conceptually sound and consistent approach to reporting for social benefits limits the overall quality and usefulness of public sector financial reports.
- 2.3 The objective of the project would be to develop comprehensive and conceptually sound requirements and guidance for accounting for social benefits that enhance the consistency of global financial reporting in this area.

### **International Guidance on this Topic**

- 2.4 There is no authoritative international guidance dealing explicitly with this topic. It is not an area that has been addressed by the International Accounting Standards Board, nor is it on the IASB's current work plan or research agenda. Given that it is a public sector specific issue, it is highly unlikely to be addressed by the IASB.

### **National Guidance on this Topic**

- 2.5 Some National Standards Setters (NSS) and Ministries of Finance (or equivalent) have guidance on approaches to social benefits. However, it appears that few, if any, NSS, Ministries of Finance (or equivalent) have in place authoritative requirements that deal with the full range of social benefits provided by public sector entities. The project development will include identification and consideration of authoritative guidance in IPSASB Member's and other jurisdictions, as appropriate.

### **Issues Identified**

- 2.6 The main issues are:
- (a) To provide definitions of social benefits and their sub-categories;

- (b) To determine when expenses and liabilities arise in respect of these sub-categories;
- (c) To determine how to measure liabilities that arise in respect of these sub-categories; and
- (d) To identify appropriate disclosure requirements relating to social benefits and their sub-categories.

**(b) Objectives to be achieved**

2.7 The ultimate objective of the project is to develop an IPSAS that defines social benefits and sub-categories of social benefits and specifies requirements for the financial reporting of social benefits.

2.8 The intermediate objectives are to produce a Consultation Paper and ED. It may be questionable whether a further Consultation Paper is necessary in light of the ITC issued in 2003, the Consultation Paper issued in 2008 and the Phase 2 Conceptual Framework Consultation Paper, which addressed the key issue of the enforceability of obligations in a non-exchange context. This project brief assumes that the significance of this issue for the public sector necessitates the development and publication of a further Consultation Paper. If developed a Consultation Paper will discuss approaches to accounting for social benefits and, in particular, explore the point at which obligations and commitments become liabilities.

**(c) Link to IFAC and IPSASB Strategic Plans**

*i. Link to IPSASB Strategy*

Accounting for social benefits is one of the most pressing and complex public sector financial reporting issues. A project on accounting for social benefits would be in furtherance of the IPSASB's strategic theme of addressing public sector critical issues. As noted above, this project is currently in abeyance while the Conceptual Framework is further developed. Phase 2 of the Conceptual Framework is particularly relevant.

*ii. Link to IFAC Strategic Plan*

The IFAC Strategic Plan for 2011–2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Developing requirements and guidance for accounting for social benefits supports both of these strategies.

### **3. Outline of the Project**

#### **(a) Project Scope**

- 3.1 The scope of this project is to define and sub-classify social benefits, determine the appropriate accounting treatment for each sub-category of social benefits and develop relevant disclosures. This includes identification of the point at which present obligations related to the sub-categories of social benefits arise and the measurement of expenses and liabilities arising from such present obligations.

#### **(b) Major Problems and Key Issues that Should be Addressed**

***Key Issue #1—The definition of social benefits and the sub-categorization of social benefits***

- 3.2 The project has previously developed a definition of social benefits and sub-classified social benefits into collective goods and services, individual goods and services and cash transfers. Definitions have been developed for all these terms. Initial versions of these defined terms were first used during the development of the ITC in 2002. The purpose of these sub-categorizations and definitions was to facilitate an analysis of when present obligations arise for different types of social benefit. In considering the response to the 2008 Consultation Paper the Board questioned whether collective goods and services should be a defined term and a sub-category of social benefits. The Board noted that goods and services within this definition were not considered social benefits under statistical bases of accounting and that virtually all respondents agreed that present obligations did not arise for collective goods and services other than in a commercial exchange context.

***Key Issue #2—When do present obligations arise for the different categories of social benefits?***

- 3.3 A fundamental issue is to determine when present obligations arise for each category of social benefit. For programs that require the satisfaction of eligibility criteria is this at the point where all eligibility criteria have been satisfied or at an earlier point?
- 3.4 The 2008 Consultation Paper tentatively explored an alternative approach to accounting for social benefits by considering the view that social benefits are provided as part of a ‘grand’ executory contract between citizens and government. Under this model, both (a) governmental obligations to provide goods services and cash transfers to individuals or households and (b) the rights of individuals or households to receive those benefits, are acknowledged as commitments. However, such governmental obligations are effectively offset by the ongoing duty of individuals or households to contribute taxes and other sources of finance. Under this approach, liabilities would not arise until legal entitlements have been established.

- 3.5 The Consultation Paper highlighted both the advantages and problems with this approach. The consultation response indicated that many respondents saw merit in considering this model further. It would also need to be evaluated in the light of decisions to be made in Phase 2 of the Conceptual Framework on whether for non-exchange transactions liabilities should be limited to those obligations that are enforceable at the reporting date.

***Key Issue #2(a)—In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?***

- 3.6 Some have a view that programs that require a specified level of contributions from beneficiaries in order to qualify for benefits are different in character from those that are non-contributory. Although such contributory programs do not give rise to exchange transactions, because the value of benefits received by beneficiaries may not be approximately equal to the value of contributions made, such programs are quasi-contractual in nature. This quasi-contractual nature, leads to different expectations on the part of beneficiaries than for non-contributory programs and means that a governments' ability to realistically avoid the obligation is more constrained than for non-contributory programs.

***Key Issue #2(b)—What is the appropriate accounting treatment for programs that operate to provide both contributory benefits (known as social insurance in statistical accounting) and non-contributory benefits (known as social assistance in statistical accounting)***

- 3.7 A further layer of complexity is introduced by the existence of highly significant programs that operate to provide contributory benefits, but also provide benefits to those who have not made the specified level of contributions; the latter mechanism is sometimes known as provision of a social minimum. If it is decided that present obligations arise at an earlier point for contributory programs than for non-contributory programs the accounting treatment of these complex programs becomes problematic and leads to the question whether bifurcation between contributory and non-contributory components is conceptually appropriate and, if so, practical.

***Key Issue #3— Where a program requires individuals or households to revalidate their entitlement to benefits, is revalidation is an attribute that should be taken into account into account in the measurement of the liability or a recognition criterion?***

- 3.8 Most social programs have eligibility conditions, which vary in number and complexity. The issue of whether the revalidation of eligibility conditions is a recognition criterion or a measurement attribute is fundamental in determining the amount of any liability. Adopting the position that revalidation is a recognition criterion limits the extent of any liability to the amount due until revalidation of eligibility conditions is next required. Conversely, treating revalidation as a measurement attribute means that the probability of continued revalidation of eligibility conditions is just one factor that is taken into account in the

measurement of a liability and therefore potentially leads to the recognition of much bigger amounts.

*Key Issue #4—What are the appropriate disclosure requirements for social benefits?*

- 3.9 A key issue will be to determine what disclosures are required, ensuring that such disclosures reflect the qualitative characteristics of financial reporting as proposed in Phase 1 of the Conceptual Framework project while mindful of the constraints on financial reporting.

#### **4. Describe the Implications for any Specific Persons or Groups**

##### **(a) Relationship to IASB**

- 4.1 The project is not directly linked to any IASB project. The approach during previous work on social benefits relied on a framework based on IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 is based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The IASB has a project on ‘Liabilities’, the eventual aim of which is to replace IAS 37. An ED, *Liabilities* was issued in January 2010 and a staff draft of an IFRS has also been made available by IASB. However, a finalized IFRS is unlikely to be issued until mid-year 2012 at the earliest.

##### **(b) Relationship to Other Standards, Projects in Process or Planned**

- 4.2 There would be limited impact on other Standards. Social benefits are currently outside the scope of IPSAS 19. There is a very strong link with the Conceptual Framework, especially Phase 2: Elements, particularly the discussion of liabilities, while decision on approaches to reporting financial performance will also have a strong bearing on the approach to accounting for social benefits.

##### **(c) Other—Government Finance Statistics**

- 4.3 One aspect of the IPSASB’s strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. The project will consider approaches to social benefits in the forthcoming revision of the Government Finance Statistics Manual and the European System of Accounts

#### **5. Development Process, Project Timetable and Project Output**

##### **(a) Development Process**

- 5.1 The development of outputs will be subject to the IPSASB’s formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the reactivated project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

**(b) Project timetable**

<b>Major Project Milestones</b>	<b>Expected Completion</b>
Present Project Brief	June 2011
Discussion of issues and development of a Consultation Paper (CP) (July 2011-March 2012)	March 2012
Approve CP (4 month comment period)	March 2012
Review of responses to CP and development of an Exposure Draft (July 2012–March 2013)	
Approve ED/EDs (4 month comment period)	March 2013
Review of responses to ED and development of a IPSAS/IPSASs (September 2013- March 2014)	
Approve Final IPSAS /IPSASs	2014

**(c) Project output**

5.2 The initial output will be a Consultation Paper. This will be followed by an ED. The ultimate output will be an IPSAS dealing with accounting for social benefits.

**6. Resources Required**

**(a) Task Force/Subcommittee**

6.1 A Task Based Group will assist in exploring the issues.

**(b) Staff**

6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

**(c) Factors that might add to complexity and length**

6.3 Factors that might add to the complexity and length of the project include:

- a) The interaction between this project and the development of the Conceptual Framework and progress on the Conceptual Framework.

**7. Important Sources of Information that Address the Matter being Proposed**

7.1 Potential sources of information regarding GBEs include:

- a) National Standard Setters guidance on social benefits.
- b) The Government Finance Statistics Manual.
- c) The System of National Accounts (SNA) 2008.
- d) The European System of Accounts.

IPSASB AGENDA SCHEDULE 2011-2013

	Staff	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012	June 2012	Sept 2012	Dec 2012	Mar 2013	June 2013	Sept 2013	Dec 2013
<b>In Progress and Committed</b>													
<b>Public Sector Conceptual Framework</b>													
Conceptual Framework Group 1	JS/PS			RR	RR	DI	DI	Final (Prov)					
Conceptual Framework Elements	JS/GM	DI		RR	RR	DI/ED	ED			RR	RR	Final	
Conceptual Framework Meas	JS/AL		DI	RR	RR	DI/ED	ED			RR	RR	Final	
Conceptual Framework P&D	JS/GJ	DI/CP	DI/CP		CP			RR	RR/ED	ED			RR
Conceptual Framework Key Characteristics	JS/JK					RR	RR	Final					
<b>Public Sector Specific</b>													
Service Concessions	JK	RR	DI	IPSAS									
Review Cash Basis IPSAS	PS												
Long-Term Sustainability of Public Finances	JS		DI/ED	ED			RR	RR	DI	Final			
Service Performance	LP/JK	DI	DI	CP			RR	RR	ED			RR	RR
Financial Statement Discussion and Analysis	JK	DI	DI	DI/ED	ED		RR	RR	Final				
Entity Combinations	AD	DI	DI	DI	DI	CP	RR	RR	DI	DI/ED	ED		RR
Financial Instruments– public sector	TBD												
First Time Adoption	JH					DI	DI	ED		RR	RR	IPSAS	
Alignment IPSASs & ps statistical reporting	GJ				DI	DI	CP & ED		RR	RR	Final		
<b>IFRS Maintenance</b>													
Improvements (annually)	AD/YL	ED		IPSAS						ED		IPSAS	
IAS 39 Amendments	TBD												
Revision of IPSASs 6-8	JSc		PB	DI		DI	DI	DI/ED	ED			RR	RR
<b>New</b>													
New project 1	AD					PB	DI	DI	CP/ED			RR	RR
New project 2	JK					PB	DI	DI	CP/ED			RR	RR

Key: IPSAS Final Standard/Guidance, ED Exposure Draft, PB Project Brief, DI Discussion of Issues. RR Review of Responses, CP Consultation Paper