



Agenda Item 8: Government Business Enterprises

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IPSASB Meeting

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Objective of Session & Material Presented (Issues Paper para 1)

- **Objective**

- **Consider** the responses to the Consultation Paper (CP); *and*
- **Seek** the IPSASB's views on the way forward

- **Material Presented**

Agenda Item 8 Covering Memorandum

Agenda Item 8.1 Issues Paper

Agenda Item 8.2 Collation and Summary of Respondents'
Comments to the CP

Agenda Item 8.3 List of Respondents and Analysis of Responses
by Region, Function and Language

Background **(Issues Paper paras 2-5)**

- CP issued in August 2014, with a request for comments by December 31, 2014
- 1 Preliminary View (PV) and 2 SMCs
- 28 responses received until January 30, 2015

Overview of Issues (1)

(Issues Paper paras 6-9)

	Approach 1		Approach 2	
	Option 1a	Option 1b	Option 2a	Option 2b
Characteristics of public sector entities for which IPSASs are intended	Yes (with IPSAS terminology)	Yes (with GFS terminology)	No	
Characteristics of public sector entities for which IPSASs are not intended	No		Yes (clarify existing GBE definition)	Yes (restrict existing GBE definition to profit-oriented entities)
Guidance on borderline cases	No (principles-based)	Yes (with description from GFS)	No	

Overview of Issues (2)

(Issues Paper paras 6-9)

- **IPSASB's unanimous PV**
 - Approach 1 is the best way forward because it focuses on the characteristics of entities for which IPSASs are intended.
- **A majority of IPSASB members supported Option 1a because:**
 - It is a high level, principles-based approach that draws on *the Conceptual Framework*;
 - It acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSASs.

Overall Comments—Broad support for the CP (Issues Paper para 11)

- Commended the IPSASB for:
 - Developing specific requirements and guidance for the public sector (R4);
 - The proposed analysis (R4); and,
 - The description of the two approaches discussed in the CP (R2).
- Happy that the IPSASB is reconsidering the applicability of its standards (R1 and R8)
- Considered it important (R11 and R13) and beneficial (R27) to clearly identify the public sector entities that should apply IPSASs

SMC 1: IPSASB's PV—General Comments (Issues Paper para 12-14)

SMC 1 asked constituents whether they agreed with the IPSASB's PV (Approach 1):

- 25 respondents agreed
- 2 disagreed
- 1 no clear view

SMC 1: Approach 1—Reasons to agree (Issues Paper para 15)

- Focuses on describing the characteristics of public sector entities for which IPSASs are intended (15 respondents);
- Is a principles-based approach (13 respondents);
- Allows flexibility to regulators and relevant authorities (15 respondents);
- Is aligned with the Conceptual Framework (13 respondents);
- Is relatively easy to understand and apply (R3);
- Addresses the difficulty of interpreting the current definition of a GBE (R3 and R28) and the lack of flexibility in the current approach (R3).

SMC 1: Approach 1—Reasons to disagree (Issues Paper para 64)

- National regulators can use different criteria (R14 and R21);
- Unavailability of capacity building in some countries to determine the appropriate reporting framework (R14);
- Need to vary the approach because there are so many complexities that surround Public Sector Entities which are absent in Private Sector Entities (R21).

SMC 1: Approach 1—Reasons to disagree (Issues Paper para 70 & 72-74)

Staff's view:

- The Conceptual Framework provides a good basis for identifying the public sector entities for which the IPSASB is developing IPSASs;
- Most of the reasons that respondents identified for not supporting IPSASB's PV can also be applied to Approach 2;
- Adopting Approach 2 precludes the benefits that IPSASB and the majority of respondents identified in relation to Approach 1.

SMC 1: Approach 1—Reasons to disagree (Issues Paper para 70 & 72-74)

Staff's recommendation:

- Adoption of Approach 1 in the further development of this project.

Matter for Consideration 1:

- **Indicate** whether it agrees with the staff's recommendation to adopt Approach 1 in the further development of this project or provide alternative directions.

SMC 1: Option 1a or Option 1b—General Comments (Issues Paper para 12)

SMC 1 asked constituents whether they prefer Option 1a or Option 1b:

- 19 respondents support Option 1a
- 5 partially support Option 1a
- 1 supports Option 1b
- 1 no clear view

SMC 1: Option 1a—Reasons to agree (Issues Paper para 15&18)

- Same reasons to support IPSASB's PV plus:
 - Option 1a allows flexibility to regulators and relevant authorities while Option 1b does not allow that flexibility (R2);
 - Option 1b is too rules based (R6) or prescriptive (R13);

SMC 1: Option 1b—Reasons to disagree (Issues Paper para 18)

- Implies the introduction of terms and principles in IPSASs from GFS reporting guidelines that:
 - Serve the objectives of GFS (R2, R4, R6, R8, R9, R13, R20, R24 and R27), rather than those of IPSASs;
 - Regulators and relevant authorities may decide to adopt a different classification (R20);
 - Rely on third-party literature and classifications with an impact on IPSASs that would be difficult to control (R4, R12 and R27);
 - Would only be useful and well understood in those jurisdictions that are familiar with the GFS reporting guidelines (R8 and R12);
 - Are not consistent with IPSASs terminology (R3, R13, R22 and R24).

SMC 1: Option 1b—Reasons to disagree (Issues Paper para 15&18)

- Does not allow flexibility to regulators and relevant authorities (R2)
- Is too rules based (R6) or prescriptive (R13)

SMC 1: Option 1b—Reasons to disagree (Issues Paper para 75—76)

Staff's view:

- Overwhelming support from respondents for Option 1a;
- Agrees with the reasons that respondents provided in support of Option 1a;
- Selecting Option 1a also avoids the problems identified by respondents in relation to Option 1b.

Staff's recommendation:

- Adoption of Option 1a in the further development of this project

Matter for Consideration 2

- **Indicate** whether it agrees with the staff's recommendation to adopt Option 1a in the further development of this project or provide alternative directions.

Revision of description of public sector entities (Issues Paper para 34—60)

- Proposed revisions:
 - “do not have capital providers that are seeking a return on their investments”;
 - Remove paragraph b)
 - Characteristics mutually exclusive or combined
- Proposed guidance
- Destiny of GBE definition
- *Staff’s recommendation:*
 - *Consider revision according to Conceptual Framework*
 - *No*
 - *Combined*
 - *Conceptual Framework*
 - *Remove from IPSASB literature, except in basis for conclusions of IPSAS 1*

Revision of description of public sector entities

Staff's recommendation:

IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of services¹ to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth; and/or,
- (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have a primary objective to make profits and generate a return on equity to investors ~~capital providers that are seeking a return on their investment or a return of the investment.~~

¹Services encompasses goods and services.

Revision of description of public sector entities

Staff's recommendation:

IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of services¹ to the public **with assets held primarily for their service potential²** and/or to make transfer payments to redistribute income and wealth and do not have have a primary objective to make profits; and,
- (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees ~~capital providers that are seeking a return on their investment or a return of the investment.~~

¹Services encompasses goods and services.

² Staff's view that this wording could be deleted

Matter for Consideration 3

- **Indicate** whether it agrees with the staff's recommendation to:
 - a) Revise the description of public sector entities or provide alternative directions;
 - b) Remove the GBE definition from IPSAS 1 and references and guidance from the suite of IPSASs and the Preface to IPSASs;
 - c) Include a reference to GBEs in the basis for conclusions of IPSAS 1 to explain the changes to the standard.

Next Steps

(Issues Paper para 77—79)

Staff identified several implications for adopting Option 1a:

- a) Revision to the Preface to IPSASs;
- b) Deletion of the definition of a GBE and supporting grey letter paragraph 12 in IPSAS 1;
- c) Deletion of black letter and grey letter reference to GBEs in other IPSASs, Recommend Practice Guidelines and Studies.

Next Steps

2 Options for development of this project :

- a) Single Exposure Draft (ED); and,
- b) Part of Improvements cycle.

Staff's recommendation:

- Single ED because:
 - Follows a CP; and,
 - Represents a significant change in the existing IPSASB literature.

Matter for Consideration 4 (Revised)

- **Indicate** whether it agrees with the staff's recommendation to develop a single ED or provide alternative directions

Matter for Consideration 5 (New)

- **Note** that staff will bring to the June 2015 meeting a detailed analysis of the consequential changes to IPSASB literature



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