

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Santiago Chile

Meeting Date: March 10–13, 2015

Agenda Item 10

For:

☐ Approval

☒ Discussion

☐ Information

Work Plan

Objective(s) of Agenda Item

1. The first objective of this agenda item is to approve the addition of the following projects to the IPSASBs work plan for 2015:
 - (a) Revenues – exchange and non-exchange
 - (b) Non exchange expenses
 - (c) Improvements to Cash Basis IPSAS
2. The second objective is to discuss projects briefs on a number of additional potential projects in order to consider their possible initiation during 2015-2019.

Materials Presented

Agenda Item 10.1	Issues Paper Work Plan
Agenda Item 10.2	Project brief – Revenues – exchange and non-exchange
Agenda Item 10.3	Project brief – Non-exchange expenses
Agenda Item 10.4	Project brief – Cash Basis IPSAS
Agenda Item 10.5	Project brief – Public sector measurement
Agenda Item 10.6	Project brief – Public sector assets – heritage and infrastructure assets
Agenda Item 10.7	Project brief – Consequential changes from Conceptual Framework
Agenda Item 10.8	Project brief – Employee benefits
Agenda Item 10.9	Project brief – Leases

Action(s) Requested

3. *The IPSASB is asked to consider the issues presented in Agenda Item 10.1 and to:*
 - (a) Approve projects on revenues – exchange and non-exchange, non-exchange expenses and improvements to the Cash Basis IPSAS; and
 - (b) Consider the remaining potential projects and prioritize them for 2015-2019.

Work Plan

Background

1. At the December 2014 IPSASB meeting, and agreed that they should further discuss the IPSASB's future work program and priorities at the March 2015 meeting. The Board agreed in December that a project on reviewing the Cash Basis IPSAS should be added to the work program and directed staff to prepare a project brief that outlines a limited scope project to address major issues.
2. In addition to the review of the Cash Basis IPSAS, the IPSASB identified a number of "must-do" projects for the period 2015-2019. These are:
 - (a) Revenues – non-exchange and exchange;
 - (b) Non-exchange expenses;
 - (c) Public sector specific measurement; and
 - (d) Public sector assets – heritage and infrastructure assets.
3. The IPSASB also noted the comments of respondents on the continued importance of maintaining IFRS convergence. Projects specifically highlighted in this context were employee benefits (IPSAS 25) and leases (IPSAS 13). Lastly the IPSASB noted the importance of addressing consequential changes arising from the completion of the conceptual framework, specifically from chapters 1-4.
4. Based on the December directions staff has prepared summarized project briefs on each of these projects to assist the IPSASB in considering the interrelationships between the projects and possible sequencing options.

Summary of project briefs

5. These agenda papers include eight summarized project briefs on the following projects:
 - (a) Revenues – exchange and non-exchange
 - (b) Non-exchange expenses
 - (c) Review of the Cash Basis IPSAS
 - (d) Public sector specific measurement
 - (e) Public sector assets - heritage and infrastructure assets
 - (f) Consequential changes from Conceptual Framework
 - (g) Employee benefits
 - (h) Leases

Significant Issues

Capacity

6. As discussed in December, project priorities must be assessed considering staff capacity, assistance being provided by national standard-setters, and committed projects, both those in progress and those not yet commenced. In this context, the timing of availability of staff (either IPSASB or externally provided staff) is relevant in determining when projects should be formally initiated.
7. Staff resources being provided by the New Zealand XRB and by the GASB are available essentially immediately. The feedback the IPSASB gave in December was that projects on non-exchange revenues (including exchange revenues) and non-exchange expenses were highly supported by stakeholders to the consultation document and therefore are priorities for initiation. Complementing this is the interest in the NZ XRB and GASB in these particular projects and their willingness to take them on. The project brief on revenues (exchange and non-exchange) has been prepared by the NZ XRB and the project brief on non-exchange expenses has been prepared by GASB. While there are certainly issues to sort out, staff is of the view that projects on **revenues (exchange and non-exchange)** and **non-exchange expenses** could be added to the IPSASB's work program immediately if the IPSASB approves the project briefs. The presumption is that the staff of these national standard setters will take the lead on these projects but that IPSASB staff will be involved in a coordination role.
8. The IPSASB also indicated that a limited scope project on the Cash Basis IPSAS should be prioritized in order to enhance its usefulness as a tool that is fit for purpose in the adoption of accrual IPSASs and aligned with the new IPSAS 33, First-Time Adoption of Accrual IPSASs. As far as staffing this project, staff has discussed this on a preliminary basis with Paul Sutcliffe who was the lead staff on the project to review the Cash Basis IPSAS. While not fully confirmed, Paul has indicated positively his interest in being involved in taking this project to an ED and to completion. On this basis staff is of the view that the limited scope project on the **Cash Basis IPSAS** could be added to the IPSASB work program immediately if the IPSASB approves the project brief.
9. In terms of remaining staff capacity, staff's analysis is that two members of existing IPSASB staff will have capacity to commence a new project later in 2015, with an additional project being initiated in 2016. This means that the IPSASB could prioritize three projects for the period 2015-2016 with the remainder for the 3-year period 2017-2019.
10. If the IPSASB approves projects on revenues, non-exchange expenses and the cash basis IPSAS, this leaves five additional projects to be prioritized for the period 2015-2017 with 3 of those to be initiated in 2015-2016:
 - (a) Public sector specific measurement;
 - (b) Public sector assets;
 - (c) Consequential changes from CFW;
 - (d) Employee benefits; and
 - (e) Leases.
11. For these five projects, summarized in project briefs 10.5 through 10.9, staff asks the IPSASB to consider these project briefs and provides the following brief analysis:

Public sector specific measurement – resource intensive; strongly supported by respondents; staff proposes should be initiated ahead of public sector assets given interrelationships;

Public sector assets – resource intensive; strongly supported by respondents; staff proposes that initiation should be sequenced after measurement, once ED approved;

Consequential changes from CFW (chapters 1-4) – some changes fairly straightforward, e.g. updating qualitative characteristics in IPSAS 1; could be undertaken in conjunction with annual improvements project; less resource intensive;

Employee benefits – could move quickly to ED if scope limited to IAS 19 changes; supported by respondents;

Leases – should not be started until IASB project complete – 2016 earliest; no strong call from respondents though maintaining alignment with IFRS strongly supported; area of high divergence once IASB project complete;

12. Staff seeks the IPSASB's view on the relative priorities of these projects based on the project briefs and considering capacity. It is staff's view that, considering various factors, projects on public sector measurement, consequential changes from the conceptual framework and employee benefits should be initiated during 2015 - 2016. These three projects are balanced in terms of resources and as a group they address respondents' comments and the IPSASB's priorities. The projects on public sector assets and leases should be highlighted as priorities subsequent to 2016 with the reason for deferral provided.

Matters for Consideration

1. The IPSASB is asked to approved projects to be added to the work program immediately for:
Revenues – exchange and non-exchange;
Non-exchange expenses; and
Review of Cash Basis IPSAS (limited scope).
2. The IPSASB is asked to provide views on the staff proposal that for 2015-2016 the remaining three projects to be initiated are:
Public sector specific measurement;
Consequential changes from the CFW; and
Employee benefits.
3. The IPSASB is asked to provide views on the staff proposal that the IPSASB indicate that for 2017-2019 the projects that will be added to the work program are:
Public sector assets; and
Leases.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Revenue

- 1.1 There are currently three IPSASs dealing with aspects of revenue:
- (a) IPSAS 9, *Revenue from Exchange Transactions* (July 2001);
 - (b) IPSAS 23, *Revenue from Non-Exchange Transactions (including Taxes and Transfers)* (December 2006); and
 - (c) IPSAS 11, *Construction Contracts* (July 2001).
- 1.2 All of these IPSASs were issued some time ago. Both the IPSASB and the IASB have recently completed important projects that could have an impact on how the IPSASB thinks about accounting for revenue.
- (a) In October 2014 the IPSASB issued the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework). The IPSASB has previously noted that IPSAS 23 might need to be reviewed following completion of the Conceptual Framework. In particular, the guidance in IPSAS 23 on when to recognize revenue and when to recognize liabilities should be reviewed for consistency with the Conceptual Framework.
 - (b) In May 2014 the International Accounting Standards Board (IASB) issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). It therefore superseded IAS 11, *Construction Contracts* and IAS 18, *Revenue* and a number of Interpretations. IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* are primarily drawn from IAS 18 and IAS 11.
- 1.3 This project brief proposes that the IPSASB undertake a single revenue project to update the requirements and guidance on exchange revenue and non-exchange revenue. Reasons for proposing a single revenue project are:
- (a) The IPSASB's standards level requirements and guidance for both exchange and non-exchange revenue should be as consistent as possible. They should also be consistent with the Conceptual Framework, and, to the extent appropriate, with IFRS 15. Having a single project makes this goal more achievable.
 - (b) IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. There are a number of similarities between the approach taken in IFRS 15 and the approach taken in IPSAS 23 (as set out in the flowchart at IPSAS 23.29). This raises the question of whether the IFRS 15 approach could be applied to both exchange and, with appropriate modifications, to

non-exchange revenue. Even if the IPSASB decides that the IFRS 15 approach is not appropriate for non-exchange revenue, the IFRS 15 approach could be used to challenge or rethink some aspects of the IPSAS 23 approach.

- 1.4 The project will be conducted in two phases. The initial phase will examine the implications of the Conceptual Framework and IFRS 15 for the IPSAS(s) dealing with revenue and the extent to which IFRS 15 is appropriate for revenue transactions in the public sector. Once this phase has been completed, the IPSASB will decide whether to issue a Consultation Paper and whether to issue one or more Exposure Drafts of IPSASs.
- (a) Consultation Paper: These can provide useful feedback when the IPSASB is looking to make significant changes or is looking at alternative options. The benefit of a Consultation Paper for this project should be determined once the initial phase has been completed.
- (b) One or more IPSASs: Having a single project does not mean that the IPSASB is committed to having a single standard. The first phase of the project needs to be completed before the IPSASB decides whether to develop one or more IPSASs dealing with revenue.
- 1.5 Table 1 summarizes the matters discussed above.

Table 1 Overview

Current Standards	Impetus for Change	Project Output
IPSAS 9 (2001)	Conceptual Framework (2014)	Consultation Paper – to be decided
IPSAS 23 (2006)	IFRS 15, <i>Revenue from Contracts with Customers</i> (2014)	New or revised IPSAS(s)
IPSAS 11 (2001)	Issues identified by constituents GFSM 2014	

2. Project Rationale and Objectives

- 2.1 The requirements for revenue transactions in IPSASs should be consistent with the Conceptual Framework, and to the extent appropriate, with IFRS 15.
- 2.2 The decision as to whether one or more IPSASs should be developed will be decided once the IPSASB has assessed the potential application of IFRS 15 to a wide range of revenue transactions in the public sector context, and having regard to the Conceptual Framework.
- 2.3 The project will also consider issues raised by constituents in relation to existing IPSASs dealing with revenue.

(a) Issues Identified

- 2.4 The project will identify the similarities and differences between the approaches to revenue recognition and measurement in IPSAS 23 and IFRS 15 and consider whether an IFRS 15 approach could be applied to a wide range of revenue transactions in the public sector. The steps required by IPSAS 23 and IFRS 15 are shown in Table 2. As can be seen in Table 2, IPSAS 23 focuses on *present obligations* and IFRS 15 focuses on *performance obligations*.

Table 2 Steps in IPSAS 23 and IFRS 15

IPSAS 23	IFRS 15
<p>Does the inflow give rise to an item that meets the definition of an asset?</p> <p>Does the inflow satisfy the criteria for recognition as an asset?</p> <p>Does the inflow result from a contribution from owners? If yes, refer to other IPSASs.</p> <p>Has the entity satisfied all of the <i>present obligations</i> related to the inflow?</p> <ul style="list-style-type: none"> Recognize an asset and revenue to the extent that a liability is not also recognized. Recognize a liability to the extent that the present obligations have not been satisfied. 	<p>Identify the contract(s) with the customer</p> <p>Identify the <i>performance obligations</i> in the contract</p> <p>Determine the transaction price</p> <p>Allocate the transaction price</p> <p>Recognize revenue when a <i>performance obligation</i> is satisfied</p>

(b) Objectives to be achieved

- 2.5 The objective of the project is to develop IPSAS(s) dealing with revenue that are consistent with the Conceptual Framework, and to the extent appropriate, IFRS 15. The project should also address issues raised by constituents in relation to IPSASs 9, 11 and 23.

(c) Link to IFAC and IPSASB Strategic Plans

Link to IPSASB Strategy

- 2.6 The project is consistent with the IPSASB's strategic objective of "developing high-quality public sector financial reporting standards". It is also consistent with two of the factors used by the IPSASB to assess project priorities in relation to the accrual IPSASs, being:
- (a) Significance for the public sector; and
 - (b) IFRS convergence.

Link to IFAC Strategy

2.7 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:

- (a) An urgent focus on improved public sector financial reporting; and
- (b) The development, adoption and implementation of high-quality international standards.

Relationship to Other Standards, Projects in Process or Planned

2.8 The project provides an opportunity for the IPSASB to revise three existing standards, having regard to the Conceptual Framework.

3. Outline of the Project

(a) Project Scope

3.1 The scope of this project is to develop new standards-level requirements and guidance on revenue to supersede that currently located in IPSASs 9, 11 and 23.

(b) Key Issues that should be addressed in Phase 1

Key Issue #1— What are the similarities and differences between the approach in IPSAS 23 and IFRS 15?

3.2 As Table 2 shows (see paragraph 2.4 above), revenue recognition in IPSAS 23 is based on the satisfaction of present obligations and in IFRS 15 it is based on the satisfaction of contractual performance obligations. The project will consider when these two approaches would lead to the same result and when they might differ.

Key Issue #2— What type of modifications would be required for IFRS 15 to be suitable for application to a wide range of revenue transactions in the public sector (including revenue currently within the scope of IPSAS 23)?

3.3 These issues include:

- (a) Identifying customers: IFRS 15.6 states that: "An entity shall apply this Standard to a contract ... only if the counterparty to the contract is a customer." It will be necessary to consider how to deal with situations in which it is difficult to identify which party is the customer.
- (b) Enforceable arrangement: Consider how the term 'enforceable arrangements' relates to the term 'binding arrangements'. IFRS 15.10, states that "A contract is an agreement between two or more parties that creates enforceable rights and obligations. IPSASs, including IPSAS 11, use the term binding arrangements.
- (c) Performance obligation: Consider how IFRS 15 applies to a range of performance obligations in the public sector and consider whether this is consistent with the Conceptual Framework.
- (d) Non-exchange components of transactions: Consider what modifications will be required to deal with the non-exchange components of transactions.
- (e) Construction contracts: IPSAS 11 contains guidance relating to cost-based and non-commercial contracts.

Key Issue #3— How many IPSASs should the IPSASB develop (to be determined following completion of Phase 1)?

- 3.4 The IPSASB's views on Key Issue 2 will inform its judgment about whether it would be appropriate to develop a single revenue standard or whether it would be more appropriate to have more than one revenue standard.

Key Issue #4— Should the IPSASB issue a Consultation Paper before developing Exposure Drafts?

- 3.5 The IPSASB generally uses Consultation Papers to seek constituents' views on major issues. If, for example, the IPSASB were to propose removing the distinction between exchange and non-exchange revenue, a Consultation Paper would be appropriate.

(c) Key Issues that should be addressed in Phase 2

Key Issue #5— Do all of the issues that constituents have raised in respect of IPSAS 23 need to be dealt with in the proposed IPSAS(s)? If so, how?

- 3.6 The IPSASB will need to consider the issues raised by constituents and determine which of these issues should be specifically addressed in standards. To the extent that some of these issues arise because of the distinction between exchange and non-exchange revenue, the IPSASB's views on key issues 2 and 4 will influence consideration of the issues raised by constituents. Regardless, aspects of IPSAS 23 that will be considered in the context of this project include (i) time stipulations as restrictions rather than conditions and (ii) the discussion of control of assets in IPSAS 23.32 and .33.

Key Issue #6— Do all of the issues that constituents have raised in respect of IPSAS 11 need to be dealt with in the proposed IPSAS(s)? If so, how?

- 3.7 The IPSASB's 2014 Strategy Consultation noted a number of issues raised by constituents in relation to construction contracts. Some of these issues may be jurisdiction specific. The IPSASB will need to consider the relative prevalence and importance of these issues.

(d) Key Issues that might need to be addressed if the IPSASB issues a revised IPSAS 23

Key Issue #7— If the distinction between exchange and non-exchange transactions is retained, should the guidance on this distinction be improved?

- 3.8 Constituents have raised various issues about the interaction between IPSAS 23 and certain other standards such as IPSAS 13, *Leases*. There is some existing guidance in IPSASs on splitting transactions into exchange and non-exchange components. The project could look at whether there are gaps in this guidance and whether the guidance should be clarified.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 This project will be based, at least in part, on IFRS 15. IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* will not be considered as part of this project. IAS 20 is not consistent with IPSASs as it permits a number of options for accounting for government grants. IAS 20 was not used in developing existing IPSASs. The IASB has previously expressed reservations about the requirements in IAS 20, including the fact that it is not consistent with the IASB's *Conceptual Framework*. The IASB does not currently have

an active project to revise IAS 20, but the IASB's project on emissions trading schemes will lead to reconsideration of some aspects of IAS 20. Any relevant projects being undertaken by the IASB and IFRIC will be monitored as part of this project.

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

- 4.2 The main linkage is with the Conceptual Framework, in particular the definitions of revenue and a liability. Consequential amendments to other IPSASs will be considered as a part of this project. Possible links with projects on non-exchange expenses and social benefits will also need to be considered.

(c) Other—Government Finance Statistics (GFS)

- 4.3 The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) and the Government Finance Statistics Manual (GFSM 2014) will be considered in developing the standard(s).

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 output

- 5.2 The ultimate output will be one or more new or revised IPSASs. At the end of Phase 1 the IPSASB will determine its preliminary views, including whether to develop one or more IPSAS(s). The IPSASB will then consider the importance of constituent feedback on the issues considered and any preliminary views reached and decide whether to issue a Consultation Paper. The project timetable shown below provides timelines for both scenarios.

(c) Project timetable

Major Project Milestones	With Consultation Paper	Without Consultation Paper
Approve Project Brief	March 2015	March 2015
Phase 1 work	June 2015 – December 2015	June 2015 – December 2015
Form preliminary views, including a view on how many IPSASs to develop Decide whether to issue Consultation Paper	December 2015	December 2015
Develop Consultation Paper and issue (4 month comment period)	March 2016 – September 2016	

Major Project Milestones	With Consultation Paper	Without Consultation Paper
Consultation Paper comments due	End January 2017	
Consider comments on Consultation Paper and confirm how many IPSAS(s) to develop	March 2017	
Discussion of issues and development of Exposure Draft(s) (5 meetings)	June 2017 – June 2018	March 2016 – March 2017
Issue ED(s) (4 month comment period)	July 2018	April 2017
ED comments due	End November 2018	End August 2017
Consider comments and develop and approve IPSAS(s)	March 2019 – September 2019	December 2017 – June 2018
Issue IPSAS(s)	October 2019	July 2018

6. Resources Required

(a) Task Based Group

6.1 A task based group will oversee the project.

(b) Staff

6.2 It is envisaged that 0.5 full time equivalent external staff resource and 0.1 full-time equivalent IPSASB staff resource will be required to resource the project.

(c) Factors that might add to complexity and length

6.3 If the IPSASB decides to issue a Consultation Paper the project is expected to take 15 months longer than if no Consultation Paper were required.

7. Other Sources of Information

7.1 Other potential sources of information include:

- (a) Current projects of other standard setters including the Australian Accounting Standards Board (AASB), the Canadian Public Sector Accounting Board (PSAB), the Governmental Accounting Standards Board (GASB) and the South African Accounting Standards Board (ASB).

AASB project Income from Transactions of Not-For-Profit Entities

PSAB project Revenue (to develop principles that apply to revenues of governments and government organizations other than government transfers and tax revenue)

PSAB Post-Implementation Review: Section PS 3410, *Government Transfers*

GASB potential project Exchange-like revenues

GASB potential project In-kind contributions

GASB potential project Nonexchange Transactions—Reexamination of Statements 33 and 36

GASB potential project Revenue Recognition: Exchange Transactions—Reexamination of Statement 62

- (b) Pronouncements and guidance of standard setters¹ that deal with aspect of revenue including distinguishing revenue from contributions from owners.

AASB Interpretation 1038: *Contributions by owners made to wholly-owned public sector entities* (2007)

GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*

GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

G4+1 SPECIAL REPORT *Accounting by Recipients for Non-Reciprocal Transfers, Excluding Contributions by Owners: Their Definition, Recognition and Measurement* (1999)

Financial Reporting Standards Board (FRSB) supplement to the G4+1 paper on non-reciprocal revenue (1999)

New Zealand Treasury *Guidance on Recognising Liabilities and Expenses* (2013)

PSAB Statement of Principles *Revenue*

PSAB Section PS 3410, Government Transfers

PSAB Section PS 3510, Tax revenue

- (c) Issues identified by IASB and the FASB Transition Resource Group – a group of external stakeholders established to identify and discuss issues that may arise in the implementation of IFRS 15 and Accounting Standards Update 2014-09. These issues include the identification of “distinct” performance obligations in a contract.
- (d) Statistical reporting guidelines including the Government Finance Statistics Manual (2014), the System of National Accounts (SNA) 2008, and the European System of Accounts.

¹ This list includes guidance issued by bodies that can influence the accounting practices of public sector entities.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
BOARD****PROJECT BRIEF AND OUTLINE****1. Subject— 1. Nonexchange Expenses, Other Than Social Benefits**

- 1.1 There currently is one IPSAS that could be applied to some aspects of nonexchange expenses from a nonexchange transaction providers perspective, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (October 2002). In addition, IPSAS 23, *Revenue From Non-Exchange Transactions*, addresses many of these transactions from a recipients perspective (which in many cases may be a public sector entity).
- 1.2 Factors that could be considered in assessing the priority of this potential project include:
 - (a) IPSAS 19 was issued some time ago and was primarily drawn from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The IAS was not developed with nonexchange transactions in mind. Moreover, social benefits were excluded from the scope of IPSAS 19. Some have questioned whether the provisions should be applied to the nonexchange transactions that were not specifically excluded from the scope of IPSAS 19 (such as grants).
 - (b) In October 2014 the IPSASB issued the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework). In particular, the guidance in IPSAS 19 should be reviewed for consistency with the Conceptual Framework.
 - (c) The IPSASB also is considering a project that would address nonexchange revenues and has a project on its current agenda that is addressing social benefits. It would be beneficial to align asset and liability and revenue and expense measurement and recognition standards for all nonexchange transactions.
- 1.3 This project brief proposes that the IPSASB undertake a project to provide guidance on nonexchange expense transactions—other than social benefits.
- 1.4 The project could be conducted in two phases. The initial phase could examine the implications of the Conceptual Framework and current IASB standards dealing with recognition and measurement for provisions and contingent liabilities and consider the implications related to nonexchange expense transactions in the public sector. Once this phase had been completed, the IPSASB could then decide how to proceed with this project, and in particular, whether to issue a Consultation Paper and whether to issue a IPSAS on nonexchange expenses—other than social benefits, an IPSAS on all nonexchange expenses, an IPSAS on all nonexchange transactions (including revenue), or whether to just issue an amendment to IPSAS 19 that would clarify its application to certain nonexchange transactions.
 - (a) Consultation Paper: These can provide useful feedback when the IPSASB is looking to make significant changes or is looking at alternative options. The benefit of a

Consultation Paper for this project should be determined once the initial phase has been completed.

- (b) IPSAS: Having a nonexchange expense project does not mean that the IPSASB would be committed to issuing a nonexchange expense standard. The first phase of the project would need to be completed before the IPSASB could decide which path to take in the project.

2. Project Rationale and Objectives

- 2.1 The requirements for nonexchange expense transactions in IPSASs should be consistent with the Conceptual Framework, and to the extent appropriate, with any IPSASB standard on nonexchange revenue and social benefits.

(a) Issues Identified

- 2.2 The project should identify the similarities and differences between the approaches to revenue recognition and measurement in IPSAS 23 and IFRS 15 and consider whether an IFRS 15 approach could be applied to a wide range of revenue transactions in the public sector. The steps required by IPSAS 23 and IFRS 15 are shown in Table 2. As can be seen in Table 2, IPSAS 23 focuses on *present obligations* and IFRS 15 focuses on *performance obligations*.

(c) Link to IFAC and IPSASB Strategic Plans

Link to IPSASB Strategy

- 2.3 This would be consistent with the part of the IPSASB's strategic objective which refers to "Developing high-quality public sector financial reporting standards". It would also be consistent with one of the factors used by the IPSASB to assess project priorities in relation to the accrual IPSASs, being significance for the public sector.

Link to IFAC Strategy

- 2.4 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:
 - (a) An urgent focus on improved public sector financial reporting; and
 - (b) The development, adoption and implementation of high-quality international standards.

Relationship to Other Standards, Projects in Process or Planned

- 2.5 The project would provide an opportunity for the IPSASB to revise existing standards, having regard to the Conceptual Framework.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to develop new standards-level requirements and guidance on nonexchange expense that would clarify or potentially supersede guidance currently located in IPSAS 19.

(b) Key Issues that should be addressed in Phase 1

Key Issue #1—What are the similarities and differences between the recognition and measurement approach being developed for the recognition of nonexchange revenues?

Key Issue #2—What are the similarities and differences between the recognition and measurement approach being developed for social benefits?

Key Issue #3—Should the IPSASB issue a Consultation Paper before developing an Exposure Draft?

Key Issue #4—What should be the scope of the IPSAS that the would IPSASB develop (for example, all nonexchange transactions, all nonexchange expense transactions, all nonexchange expense transactions other than social benefits)?

(c) Key Issues that should be addressed in Phase 2

Key Issue #5—Should specific guidance be developed for differing types of nonexchange transactions? If so, how?

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 Specific guidance on gifts (the private sector equivalent for many nonexchange expense transactions is not provided in the IASB literature. However, some would asset that IAS 37 provides general guidance that should be applied to those transactions. Any relevant projects being undertaken by the IASB and IFRIC would be monitored.

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

- 4.2 The main linkage is with the Conceptual Framework, in particular the definitions of expense, liability, and asset. Consequential amendments to other IPSASs will be considered as a part of this project. As previously noted links with projects on nonexchange revenues and social benefits also would be considered.

(c) Other—Government Finance Statistics (GFS)

- 4.3 The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) and the Government Finance Statistics Manual (GFSM 2014) will be considered in developing the standard(s).

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 output

- 5.2 The ultimate output will be one or more new or revised IPSASs. At the end of Phase 1 the IPSASB will decide whether to issue a Consultation Paper and form a view on whether to develop one or more IPSAS(s).

(c) Project timetable

Major Project Milestones	Without Consultation Paper	With Consultation Paper
Approve Project Brief	March 2015	March 2015
Phase 1 work	June 2015 – June 2016	June 2015 – June 2016
Decide whether to issue Consultation Paper	June 2016	June 2016
Form view on how many IPSASs to develop	June 2016	June 2016
Develop Consultation Paper and issue (4 month comment period)		July 2016 – April 2017
Consultation Paper comments due		October 2017
Consider comments on Consultation Paper and confirm how many IPSAS(s) to develop		December 2017 – March 2018
Discussion of issues and development of Exposure Draft(s) (6 meetings)	September 2016 – December 2017	December 2017 – March 2019
Issue ED(s) (4 month comment period)	January 2018	April 2019
ED comments due	May 2018	October 2019
Develop and approve IPSAS(s)	June 2018 – March 2019	November 2019 – November 2020
Issue IPSAS(s)	April 2019	December 2020

6. Resources Required

(a) Task Based Group

- 6.1 A task based group will oversee the project.

(b) Staff

- 6.2 It is envisaged that 1 full time equivalent external staff resource and 0.25 full-time equivalent IPSASB staff resource will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 If the IPSASB decides to issue a Consultation Paper this would extend the completion of the project by 16 months.

7. Other Sources of Information

- 7.1 Other potential sources of information include:

- (a) Current projects of other standard setters including the Canadian Public Sector Accounting Board (PSAB) and the Governmental Accounting Standards Board (GASB).

PSAB Post-Implementation Review: Section PS 3410, *Government Transfers*

GASB Nonexchange Transactions—Reexamination of Statements 33 and 36 project

- (b) Pronouncements and guidance of standard setters¹ that specifically deal with nonexchange expenses.

GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

New Zealand Treasury *Guidance on Recognising Liabilities and Expenses* (2013)

PSAB Section PS 3410, *Government Transfers*

- (c) Statistical reporting guidelines including the Government Finance Statistics Manual (2014), the System of National Accounts (SNA) 2008, and the European System of Accounts.

¹ This list includes guidance issued by bodies that can influence the accounting practices of public sector entities.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Review of Cash Basis IPSAS

- 1.1 The IPSAS, *Financial Reporting Under the Cash Basis of Accounting*, (*the Cash Basis IPSAS*) was issued in January 2003. *The Cash Basis IPSAS* was subsequently updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007.
- 1.2 *The Cash Basis IPSAS* is in two parts. Part 1 provides requirements, while Part II provides encouraged additional disclosures.
- 1.3 In 2008 the IPSASB initiated a project, overseen by a Task Force to consider implementation issues and to make recommendations to the IPSASB on modifications to *the Cash Basis IPSAS*. The Task Force was chaired by then IPSAS Deputy Chair, Erna Swart, and included an IPSASB member, (the current Chair) and representatives of bi-lateral and multi-lateral donors. The staff lead was Paul Sutcliffe, Senior Adviser. The Task Force's work was informed by responses to a questionnaire and visits by Task Force members to national governments. In mid-2010 the Task Force agreed its recommendations, finalized its report and submitted it to the IPSASB. The IPSASB discussed the recommendations at its June 2010 meeting. The IPSASB accepted all of the Task Force's recommendations except that members expressed different views about the recommendation dealing with consolidation. However, largely because of resource issues, the IPSASB deferred work on implementation of the Task Force recommendations. The Task Force report is at Appendix A.
- 1.4 The work plan section of *the IPSASB Strategy Consultation*, issued in March 2014, addressed the future of *the Cash Basis IPSAS* and sought respondents' views on the usefulness of *the Cash Basis IPSAS* as well as recommendations for how the IPSASB should deal with it going forward. *The IPSASB Strategy Consultation* provided three options:
 - (a) Retain the Cash Basis IPSAS and complete the project to revise it;
 - (b) Retain the Cash Basis IPSAS but do no further work on it; or
 - (c) Withdraw the Cash Basis IPSAS.
- 1.5 The majority of respondents favored retention of *the Cash Basis IPSAS*. However, these respondents were almost equally split between those who did not support allocating further resources to this IPSAS and those who advocated completing a detailed project. A majority of IPSASB members agreed that a project on reviewing *the Cash Basis IPSAS* should be added to the work program and directed staff to prepare a project brief outlining a potential limited scope project for the March 2015 meeting.

2. Project Rationale and Objectives

(a) Project rationale

- 2.1 The project rationale is to make limited changes to *the Cash Basis IPSAS* to respond to points raised by the Task Force and preparers. The project is not a full review of *the Cash Basis IPSAS* and does not address all the recommendations of the Task Force

(b) Objectives to be achieved

- 2.2 The objective is to issue a revised *Cash Basis IPSAS*.
- 2.3 The intermediate objective is to produce an Exposure Draft of proposed changes.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.4 The project is consistent with the IPSASB's strategic objective of "developing high-quality public sector financial reporting standards". Because adoption and implementation of *the Cash Basis IPSAS* is acknowledged as a step on the way to adoption of accrual-based IPSASs the project is also consistent with the objective of raising awareness of IPSASs and the benefits of their adoption.

ii. Link to IFAC Strategic Plan

- 2.5 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:
- (a) An urgent focus on improved public sector financial reporting; and
 - (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to review the requirements in *the Cash Basis IPSAS* for Consolidation, External Assistance and Third Party Settlements. There will also be a high level "housekeeping" review of the *Cash Basis IPSAS* in response to the Task Force recommendation that *Part 1 of the Cash Basis IPSAS* should be subject to a broad "house-keeping" review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSAS. Since the Task Force reported the IPSASB has issued:

- IPSAS 31, *Intangible Assets*
- IPSAS 32, *Service Concession Arrangements: Grantor*;
- IPSAS 33, *First-time Adoption of Accrual Basis IPSAS*; and
- IPSAS 34-38, *Interests in Other Entities*.

(b) Key Issues

- 3.2 The key issues are listed below: The list is not exhaustive.

Key Issue #1—Consolidation

- 3.3 During the development of the Cash Basis IPSAS there was considerable discussion of consolidation with some members questioning whether the inclusion of requirements for a controlling entity to issue consolidated financial statements was too onerous. However, the IPSASB decided to include such a requirement. The Cash Basis IPSAS includes a transitional provision that provides a three-year relief period from the requirement to eliminate all cash balances and transactions between entities within the economic entity
- 3.4 The Task Force identified consolidation as a significant legal and technical issue. A number of respondents to the questionnaire cited it as an impediment to adoption of the Cash Basis IPSAS. The Task Force noted that that concerns about the practicality and usefulness of preparing consolidation financial statements encompassing all controlled entities were not really particular to application of the Cash Basis IPSAS. The experience of recent adopters of IPSASs and the comments in the 2013 Eurostat report on the feasibility of the adoption of IPSAS in the European Union have both highlighted the challenge of consolidation.
- 3.5 The Task Force recommended a transitional period of three to five years within which full consolidation of all entities is to be achieved. The project will look at implementing this recommendation and will also look at whether the consolidation provisions in Part 1 should be relocated to Part 2.

Key Issue #2—External Assistance

- 3.6 Part 1 of *the Cash Basis IPSAS* has requirements related to external assistance. External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. The definition of official resources is limited to loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide the assistance. The definition does not include assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding arrangement.
- 3.7 Part 2 of the Cash Basis IPSAS provides encouraged disclosures related to assistance received from NGOs. While acknowledging the complexities and sensitivities involved, the Task Force recommended that certain of the encourage disclosures about the sources and uses of external assistance related to NGOs in Part 2 of *the Cash Basis IPSAS*, should be relocated to Part 1 The project will examine this proposal.

Key Issue #3—Third Party Payments

- 3.8 Part 1 of the Cash Basis IPSAS requires disclosures of total payments by a third party in direct settlement of the obligations of an entity or purchases of goods and services for the benefit of the entity. The Task Force commented that it was not convinced that some preparers understood the requirements to disclose information about third party settlements and identified two main concerns:
- The timeliness of the availability of information; and
 - The distinction between third party settlements and external assistance received in the form of goods and services and the type and location of the disclosures that are to be made about each.

- 3.9 The Task Force recommended that the IPSASB clarify the relationship between third party settlements and external assistance received in the form of goods and services and the type and location of the disclosures to be made about each.
- 3.10 Staff also considers that consideration should be given to relocating the requirements related to third party settlements to Part 2 of *the Cash Basis IPSAS*.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 Because the project deals with the cash basis of accounting there are no implications for the relationship with the IASB.

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

- 4.2 There are links to IPSAS 33, *First Time Adoption of IPSASs*. There are allusions to external assistance in IPSAS 33, but no detailed guidance. The project provides an opportunity to clarify the relationship between the *Cash Basis IPSAS* and IPSAS 33. There are indirect links to Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*. One of the recommendations of the Task Force was that the IPSASB should clarify and reinforce the role of *the Cash Basis IPSAS* and Study 14 in supporting the movement along the spectrum from the cash to the accrual basis of financial reporting.

(c) Other—Government Finance Statistics

- 4.3 There are no direct links to the Government Finance Statistics Manual and the European System of Accounts 2010.

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 approval of the ED 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

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of proposed amendments to the <i>Cash Basis IPSAS</i>	April-August 2015
Approve ED (four month comment period)	September 2015
Review of responses to ED	March 2016
Develop revised <i>Cash Basis IPSAS</i>	July-November 2015
Approve revised <i>Cash Basis IPSAS</i>	December 2016

(c) Project output

- 5.2 The initial output will be an Exposure Draft. Following analysis of the responses to the ED a revised *Cash Basis IPSAS* will be issued. The issuance of a revised *Cash Basis IPSAS* will provide a fresh opportunity to explain the intention of the *Cash Basis IPSAS* and its role in the migration to the full accrual basis.

6. Resources Required

(a) Task Based Group

- 6.1 A Task Based Group will assist in overseeing the project. Given the limited scope of the project staff does not think it is necessary to reactivate the 2008 Task Force that produced the 2010 Task Force Report or to establish a new Task Force.

(b) Staff

- 6.2 It is envisaged that 0.2 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 The factor that will add to the complexity and length of the project is extension of the project to cover a broader range of issues identified by the Task Force

7. Important Sources of Information

- 7.1 The principal information source of information is the 2010 Task Force Report.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Public Sector Measurement

- 1.1 Chapter 7 of the Conceptual Framework addresses the measurement of assets and liabilities in financial statements. This chapter identifies measurement bases for assets and liabilities:

Assets

- Historical Cost
- Market Value
- Depreciated Replacement Cost (Optimized)
- Net Selling Price
- Value in Use

Liabilities

- Historical Cost
- Cost of Fulfillment
- Market Value
- Cost of release
- Assumption Price

- 1.2 Measurement requirements in existing IPSAS specify a variety of measurement bases: a number are fair value measurements—this is a pre-IFRS 13, *Fair Value Measurement*, definition of fair value, rather than an explicitly exit value. The Framework reflects a view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics. It emphasizes that:

- Historical cost is a measurement basis;
- Depreciated replacement cost is a measurement basis in its own right and is likely to be an appropriate current value measurement basis for specialized operational assets; and
- Cost of Fulfillment is likely to be the only feasible measurement basis for settling liabilities where there is no likelihood of a third part assuming the liability.

- 1.3 The combined impact of the publication of the Conceptual Framework and the revised definition of IFRS 13, *Fair Value Measurement*, is that (i) existing measurement requirements in many IPSASs are not consistent with the Framework and (ii) the definition of fair value in a number of IPSASs, notable IPSAS 17, *Property, Plant and Equipment*, is not consistent with the definition in IFRS 17.

2. Project Rationale and Objectives

(a) *Project rationale*

- 2.1 The project rationale is that the measurement requirements and guidance in many current PSASs are not consistent with the Conceptual Framework.

(b) *Objectives to be achieved*

- 2.2 The objective is to issue amended IPSASs with revised measurement requirements.
- 2.3 The intermediate objectives is to produce an Exposure Draft of proposed changes to IPSASs.

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

i. Link to IPSASB Strategy

- 2.4 The project is consistent with the IPSASB's strategic objective of "developing high-quality public sector financial reporting standards".

ii. Link to IFAC Strategic Plan

- 2.5 IFAC's Strategic Plan for 2013–2016, Leading the Way, has two strategic objectives to which this project responds:
- (a) An urgent focus on improved public sector financial reporting; and
 - (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) *Project Scope*

- 3.1 The scope of this project is to identify and evaluate current measurement requirements and guidance in the existing suite of IPSASs and evaluate the justification for amendment and propose amendments.

(b) *Key Issues*

- 3.2 The key issues are listed below: The list is not exhaustive.

Key Issue #1—To what extent should existing measurements requirements in IPSAS be amended to conform to the Conceptual Framework?

- 3.3 The Conceptual Framework underpins the development of IPSASB's literature. Changing measurement requirements imposes costs on preparers and there may be cases where existing requirements better meet user needs. Consequently there should not be an automatic assumption that existing measurement requirements should be modified.

Key Issue #2 —Implementation Guidance

- 3.4 The project will consider the need for implementation guidance in areas like the operationalization of depreciated replacement cost.

Key Issue #3—Disclosures

- 3.5 The project will consider the case for additional disclosures where a particular measurement basis is used, but an application of alternative measurement basis might provide useful information. The benefits of such additional information must be balanced against the costs to preparers of providing such information which is likely to involve further valuations.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 There are links to IFRS 13, *Fair Value Measurement*. One of the objectives of IFRS 13 is to set out in a single IFRS a framework for measuring fair value. The higher level aim is to enhance consistency of measurement requirements in the IASB' literature. The aim of this IPSASB project is similar.

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

- 4.2 There is a strong link to the project on public sector assets, which will not be activated until this project is progressed to ED stage.

(c) Other—Government Finance Statistics

- 4.3 Measurement requirements in the Government Finance Statistics Manual 2014 will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will provide the approach.

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 approval of the ED 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

- 5.2 The major milestones are listed below. Staff does not think it necessary to develop a Consultation Paper.

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of Exposure Draft (ED)	May 2015-March 2016
Approve ED (four month comment period)	June 2016
Review of responses to ED	November 2016-June 2017
Develop amendments to IPSASs	July 2017-March 2018
Issue revised IPSASs	April 2018

(c) Project output

- 5.3 The initial output will be ED of proposed revisions to the measurement requirements and guidance existing suite of IPSASs. The final output will be revised IPSASs with amended requirements and guidance, including, potentially, additional guidance.

6. Resources Required

(a) Task Force

- 6.1 A Task Force will oversee the project. It is proposed that this Task Force should include a representative of the International Valuation Standards Council (IVSC) and the statistical accounting community.

(b) Staff

- 6.2 It is envisaged that 0.4 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 The range of existing measurement requirements in existing IPSASs
- 6.4 Developing a Consultation Paper would extend the length of this project by 15-18 months.

7. Important Sources of Information

- 7.1 The principal information sources are:
- Chapter 7 of the Conceptual Framework;
 - Measurement requirements in literature of public sector standard setters;
 - Pronouncements and guidance of the IVSC; and
 - Measurement requirements in the GFSM.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Public Sector Assets (Infrastructure Assets and Heritage Assets)

1.1 IPSAS 17, *Property, Plant and Equipment*, was initially issued in December 2001, IPSAS 17 was primarily drawn from IAS 16, *Property, Plant and Equipment*. A revised version that reflected changes to IAS 16, resulting from the IASB's 2002-2003 General Improvements Project, was issued in December 2006. The principal requirements of IPSAS 17 relate to (a) recognition; (b) measurement at initial recognition and subsequently; (c) depreciation; (d) derecognition; and (e) disclosures.

1.2 IPSAS 17 provides limited guidance on infrastructure assets and heritage assets. Noting that there is no universally accepted definition of infrastructure assets, IPSAS 17 provides examples of such assets—road networks, sewer systems, water and power supply systems and communication networks—and notes that infrastructure assets display some or all of the following characteristics:

- Part of a system or network
- Specialized in nature and no alternative users
- Immovable
- Subject to constraints on disposal

Regardless of this guidance, IPSAS 17 states that “infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard.” Some standard setters have (or have had) specific requirements related to infrastructure assets.

1.3 IPSAS 17 provides more detailed grey letter guidance on heritage assets. There is no formal definition of heritage assets, but IPSAS 17 provide examples of such assets—historical buildings and monuments, archaeological sites, conservation areas and nature reserves. IPSAS 17 provides the following examples of the characteristics of heritage assets, noting that some also apply to other assets:

- Value in cultural, educational and historical terms unlikely to be fully reflected in a financial value based on market price;
- There may be legal prohibitions or restrictions on their disposal;
- Often irreplaceable and value may increase over time, even if their physical condition deteriorates; and
- Estimation of useful lives is difficult

1.4 IPSAS 17 does not require an entity to recognize heritage assets that would meet the definition of property, plant and equipment. If an entity does recognize such assets it must provide the disclosures required by IPSAS 17 and may apply the measurement requirements in IPSAS 17.

- 1.5 At the time of IPSAS 17's approval in 2001 it was acknowledged that further work needed to be carried out on heritage assets and that the requirements and guidance in IPSAS 17 were provisional. In late 2004 the IPSASB therefore initiated a project, on accounting for heritage assets. The IPSASB subsequently accepted an offer from the United Kingdom Accounting Standards Board's Committee on Accounting for Public-benefit Entities to engage in an informal partnership; the UK ASB would prepare a Discussion Paper, which would be made available for comment by the IPSASB's wider constituency. In early 2006 the IPSASB issued a Consultation Paper (CP), *Accounting for Heritage Assets under the Accrual Basis of Accounting*. The CP is available from staff on request.
- 1.6 The DP proposed the following definition of heritage assets:
- "An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it."*
- 1.7 The main, and most contentious, proposal in the DP was that heritage assets should be recognized wherever it is practicable to obtain reliable current valuations on an ongoing basis for a majority, by value, of all such assets held by the entity. Where not practicable to obtain such valuations for the majority, by value, of all heritage assets, the DP proposed that heritage assets should not be recognized. The DP also proposed a set of additional disclosures covering areas such as the entity's preservation and management policy and the sources of funding for acquisitions.
- 1.8 Respondents expressed mixed views on the proposals. There was some support for certain aspects of the definition, but reservations that similar items would be treated differently, dependent on the objectives of the entity holding them. There was considerable support for the principle of enhanced disclosures for heritage assets, although some disagreement with a more specific proposal requiring time series information for a number of previous years. There was little support for the "all-or-nothing" approach towards recognition and measurement. A number of respondents argued that the proposal was logically flawed, because it would not be possible to make a judgment on the feasibility of obtaining reliable current valuations on an ongoing basis for a majority, by value, of heritage assets held by the entity without commissioning a full valuation.
- 1.9 Furthermore, there was no consensus on the approach to recognition. Some respondents argued that heritage assets should be recognized on the same basis as other items of property, plant and requirements. Conversely other respondents favored the non-recognition of heritage items and a set of disclosures. Most respondents indicated a preference for heritage assets to be addressed in IPSAS 17 rather than in a separate IPSAS
- 1.10 The IPSASB decided that, in light of the commencement of the Conceptual Framework project and the obvious links to the definition of an asset the project should be deactivated until the Framework was considerably advanced.

2. Project Rationale and Objectives

(a) Project rationale

- 2.1 The project rationale is to provide more detailed requirements and guidance on accounting for infrastructure assets and heritage assets in a revised IPSAS 17 or another IPSAS (s)

(b) Objectives to be achieved

- 2.2 The objective is to issue a revised IPSAS 17 (or other IPSAS), with additional requirements and/or more detailed guidance on infrastructure assets and heritage assets.
- 2.3 The intermediate objectives are to produce a CP and ED of proposed requirements and guidance related to infrastructure assets and heritage assets.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.6 The project is consistent with the IPSASB's strategic objective of "developing high-quality public sector financial reporting standards". The project is also consistent with the objective of raising awareness of IPSASs and the benefits of their adoption, because it deals with assets, some of which are public sector specific, and others are far more common in the public sector than in the private sector.

ii. Link to IFAC Strategic Plan

- 2.7 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:
- (a) An urgent focus on improved public sector financial reporting; and
- (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to provide more detailed requirements and guidance for infrastructure asset and heritage assets.

(b) Key Issues

- 3.2 The key issues are listed below: The list is not exhaustive.

Key Issue #1—Definitions

- 3.3 It should be noted that there is still a school of thought that many heritage items do not meet the asset definition and that they impose ongoing obligations on entities rather than providing service potential. While it is relatively straightforward to provide the general characteristics of both infrastructure assets and heritage assets it is more difficult to determine the balance between definitions that are too broad and risk including inappropriate items and definitions that are too restrictive.
- 3.4 The 2006 CP provides a starting point for a definition of heritage assets.

Key Issue #2—Measurement

- 3.5 The project will consider measurement requirements and guidance for infrastructure assets and heritage assets taking into account the recommendations from the Public Sector Measurement project.

Key Issue #3 —Depreciation

- 3.6 Some argue that heritage and infrastructure assets should be subject to the same depreciation requirements as other assets. Other take the view that there are attributes of assets in these classes and features of their management that justify different depreciation requirements.
- 3.7 For heritage assets the view that there is no case for depreciation is based on the characteristics that the value of such assets may increase even if the physical condition deteriorates, and that it is frequently difficult, if not impossible, to estimate useful lives.
- 3.8 Some standard setters have developed approaches that permit entities not to depreciate infrastructure assets if they meet conditions typically related to the maintenance of up-to-date inventories, the completion of regular condition assessments and financing the maintenance and preservation of such assets at a specified level related to such condition assessments.

Key Issue#4—Disclosures

- 3.9 There is a view that the disclosure requirements in IPSAS 17 are insufficient for infrastructure assets and heritage assets and that additional disclosures need to be developed. Such a view is based on the characteristics of these assets; in particular that:
- Infrastructure assets are part of a network delivering essential services. Disclosures of condition assessments and maintenance backlogs are necessary for accountability purposes, so that users can assess whether the entity is able to provide essential services in the future; and
 - Heritage assets imply stewardship responsibilities that require disclosure of conservation policies and other factors such as funding sources.
- 3.10 The rationale for additional disclosures is enhanced if it is decided that differential depreciation requirements should be applied to such assets. However, the need for additional disclosures is countered by the recent emphasis on “disclosure overload”.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 There are links to IAS 16, Property, Plant and Equipment and IFRS 13, *Fair Value Measurement*, although these are likely to be considered in detail in the public sector measurement project before.

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

- 4.2 There are strong links to the Conceptual Framework and, in particular to the project on public sector measurement. The project on public sector assets should not be started until the project on public sector measurement is well advanced.

(c) Other—Government Finance Statistics

- 4.3 The measurement requirements in Government Finance Statistics will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will guide the approach.

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 approval of the CP and ED 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

- 5.2 This project will be informed by the project on public sector measurement, so it will be inappropriate to activate it until the public sector measurement project is well developed. This is not estimated to be before Q3 2015.

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of Consultation Paper (CP)	August 2016-March 2016
Approve CP (four month comment period)	March 2017
Review of responses to CP	December 2016-March 2017
Develop Exposure Draft (ED)	April 2017-August 2017
Approve ED (four month comment period)	September 2017
Reviews of responses to ED	March-June 2018
Approve revisions to IPSAS 17 (or new IPSAS)	September 2018

(c) Project output

- 5.3 Given the range of potential approaches to accounting for heritage assets, in particular, it is not feasible to go straight to ED stage. The initial output will therefore be a CP. While the IPSASB has issued a CP this was almost ten years ago, and, as previously indicated, the responses to the CP expressed diverse views. Following analysis of responses to the CP, an ED will be developed. Revised requirements, if warranted, will be finalized following analysis of responses to the ED.

6. Resources Required

(a) Task Force

- 6.1 A Task Force will oversee the project. This should include constituents such as the valuation profession and statistical accountants.

(b) Staff

- 6.2 It is envisaged that 0.3 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 The range of possible approaches for heritage assets.
- 6.4 Developing a Consultation Paper will extend the length of this project by 15-18 months.

7. Important Sources of Information

- 7.1 The principal information sources of information will be the literature of public sector standard setters.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. **Subject—Consequential Changes from Phase 1 Chapters of the Conceptual Framework**

- 1.1 This is a limited scope project that proposes changes to current IPSASs as a result of the Phase 1 Chapters of the Conceptual Framework (Chapters 1-4).
- 1.2 The first four chapters of the Conceptual Framework cover role and authority; objectives and users; the qualitative characteristics (QCs); and the reporting entity, and were published in January 2013 prior to inclusion in the complete Framework that was published in October 2014.
- 1.3 Appendix A of IPSAS 1, *Presentation of Financial Instruments*, describes the QCs and pervasive constraints on information included in general purpose financial reports that underpin the current suite of IPSASs. Appendix A is drawn from the IASB's 1989 Conceptual Framework. Following approval of the Phase 1 chapters at the December 2012 meeting, the IPSASB considered whether Appendix A should be withdrawn on issue of the Phase 1 chapters and cross references to Appendix A elsewhere in the IPSASB literature revised or deleted e.g., IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, IPSAS 18, *Segment Reporting*, and IPSAS 24, *Presentation of Budget Information*. Staff noted that, following approval of Chapter 3, *Qualitative Characteristics*, of the Framework, there would be two sets of QCs in the IPSASB literature, and that this would be potentially confusing to users.
- 1.4 While some members acknowledged the staff view, Members did not support the withdrawal of Appendix A without due process, because such an approach would have been in breach of the public position that the Conceptual Framework is non-authoritative and that changes to the existing suite of IPSASs would not be made without further and full due process. Members therefore decided that Appendix A in IPSAS 1 should not be withdrawn at that time. In order to ensure that users are aware of how the two sets of QCs and pervasive constraints relate to existing pronouncements and IPSASs and RPGs under development staff was directed to include a clear statement above Appendix a of IPSAS on the operation of the QCs and pervasive constraints in IPSAS 1.
- 1.5 The 2013 and 2014 Handbooks therefore include the following wording at the top of Appendix A:

The IPSASB issued Chapter 3, *Qualitative Characteristics of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Framework*) in January 2013. Chapter 3 details the qualitative characteristics (QCs) of information included in general purpose financial reports (GPIFRs) and the pervasive constraints on information included in GPIFRs.

The QCs in this Appendix continue to apply to existing pronouncements unless stated otherwise. The QCs in the *Framework* will be applied in the development of future pronouncements. Potential changes to pronouncements resulting

from the issue of the *Framework*, including the potential withdrawal of this Appendix will be considered following completion of the *Framework*.

- 1.6 There are a number of other changes to the current suite of IPSASs arising from Chapters 1-4. These include amending the hierarchy of pronouncements in IPSAS 3 to insert a reference to IPSASB's Conceptual Framework and deleting the current reference to the IASB's Conceptual Framework; and considering the replacement of the term "reliability" with "faithful representation".

2. Project Rationale and Objectives

(a) Project rationale

- 2.1 The project rationale is to propose changes to the current suite of IPSASs arising from Chapters 1-4 of the Conceptual Framework.

(b) Objectives to be achieved

- 2.2 The objective is to issue a number of revised IPSASs that reflect concepts from Chapters 1-4 of The Framework.
- 2.3 The intermediate objective is to produce an Exposure Draft of proposed changes to IPSASs.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.4 The project is consistent with the IPSASB's strategic objective of "developing high-quality public sector financial reporting standards", as the revised IPSASs will reflect concepts in one of the cornerstones of IPSASB's future standard setting.

ii. Link to IFAC Strategic Plan

- 2.5 IFAC's Strategic Plan for 2013–2016, *Leading the Way*, has two strategic objectives to which this project responds:
- (a) An urgent focus on improved public sector financial reporting; and
 - (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to revise the existing suite of IPSASs to reflect concepts in Chapters 1-4 of the Conceptual Framework. The project's scope does not extend to concepts on elements, recognition, measurement and presentation in Chapters 5-8 of the Framework. There is a separate project brief on public sector measurement.

(b) Key Issues

- 3.2 A decision will be required whether there should be a stand-alone ED or whether the proposed changes should be included in the next Improvements ED. This may depend on whether there is a reversion to an annual improvements cycle from the current biennial cycle and whether the Improvements project's scope extends beyond amendments drawn from the IASB's improvements project.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 IASB has a project to update its Conceptual Framework and issued a revised chapter on QCs in 2010. The IASB's forthcoming Exposure Draft will propose some limited amendments, mainly to provide greater discussion of stewardship, prudence and reliability in a revised Basis for Conclusions. The IPSASB considered the IASB's chapter on QCs during the development of the Conceptual Framework. This project will not consider the IASB approach further.

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

- 4.2 There are links to the project on public sector measurement, which examines measurement requirements in current IPSASs in the context of Chapter 7 of the Framework.

(c) Other—Government Finance Statistics

- 4.3 There are no direct links to Government Finance Statistics.

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 approval of the ED 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

- 5.2 The timetable is based on the assumption that there will be a standalone ED

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of Exposure Draft (section of an ED)	June- July 2015
Approve ED	September 2015
Review of responses to ED	March 2016
Approve revisions to IPSAS	June 2016

(c) Project output

- 5.3 The initial output will be an Exposure Draft. Following analysis of the responses to the ED revised IPSASs will be issued.

6. Resources Required

(a) Task Based Group

- 6.1 A Task Based Group will assist in overseeing the project.

(b) Staff

6.2 It is envisaged that 0.2 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

6.3 The number of amendments identified as a result of the review of the current suite of IPSASs.

7. Important Sources of Information

7.1 The principal information sources are Chapters 1-4 of the Conceptual Framework.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Employee Benefits

- 1.1 IPSAS 25, *Employee Benefits*, was issued in February 2008. It is a converged standard based on IAS 19, *Employee Benefits*.
- 1.2 The IASB issued a revised IAS 19 in 2011 which eliminated an option to defer the recognition of changes in net defined benefit liability and amending some of the disclosure requirements for defined benefit plans and multi-employer plans. The objective of this project is to consider the limited scope revisions to IAS 19 and whether IPSAS 25 should be revised to maintain alignment with the underlying IFRS. Any differences between IAS 19 and IPSAS 25 should be a result of public sector specific reasons.
- 1.3 Because this project is assessing an existing IPSAS it may be less resource intensive than other projects. The responses to the strategy consultation rated this project in the medium range. In addition, the responses supported the ongoing alignment of existing IPSASs with underlying IFRSs.
- 1.4 Pension fund liabilities are prominent in the public sector. One of the challenges to this project could be limiting the scope of any proposed changes to those made by the IASB. Some stakeholders have noted that in calculating the liability for employee benefits obligations both IPSAS 25 and IAS 19 use a standardised method ("Projected Unit Credit Method") which provides a result that varies from the legal liability. The legal liability is often significantly less than the liability calculated for accounting purposes. Stakeholders have questioned whether this is an overstatement of the liabilities and proposed that IPSAS 25 should address this issue.
- 1.5 In addition, staff is aware of at least one jurisdiction that is dealing with a new type of pension plan, called shared risk plans, that may not be addressed by the existing standards.

2. Project Rationale and Objectives

(a) Project rationale

- 2.1 The project rationale is that the IASB's Employee Benefits standard has been amended. Since this was the basis for developing IPSAS 25 this will result in a divergence if IPSAS 25 is not amended.

(b) Objectives to be achieved

- 2.2 The objective is to issue a revised IPSAS 25 on Employee Benefits which would be converged with the underlying IFRS.
- 2.3 The intermediate objective is to produce an Exposure Draft of proposed changes.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.4 The project is consistent with the IPSASB's strategic objective of "strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASSs by developing high-quality public sector financial reporting standards".

ii. Link to IFAC Strategic Plan

- 2.5 IFAC's Strategic Plan for 2013–2016, Leading the Way, has two strategic objectives to which this project responds:

- (a) An urgent focus on improved public sector financial reporting; and
- (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to develop accounting requirements for employee benefits that are substantially converged with the IFRSs.

(b) Key Issues

- 3.2 The key issues are listed below: The list is not exhaustive.

Key issue #1 Scope of the project

- 3.3 When the IASB amended IAS 19 in 2011 those changes were the result of a limited scope project rather than a comprehensive project to address all areas of post-employment benefit accounting. The most fundamental change to IAS 19 was eliminating the corridor option that allowed deferred recognition of changes in the net defined benefit liability. The IASB took the view that immediate recognition provides information that is more relevant to users and also that eliminating accounting options makes comparisons easier.
- 3.4 In identifying this as a potential project in the strategy review, it was highlighted that in addition to the divergence of the corridor approach, some stakeholders had raised issues with the use of the Projected Unit Credit Method (consistent with IAS 19) for calculating the liability for employee benefits obligations since this results in a variation from the legal liability. Lastly, as noted, staff are aware of some new pension plans emerging in the public sector (shared risk plans) that may need to be addressed.
- 3.5 If the project is undertaken, it will be necessary to consider whether this is a limited scope project to maintain alignment with IAS 19 or whether a more comprehensive project on employee benefits is envisioned. It is noted that most respondents that prioritized this project focused on the importance of alignment with IAS 19.

Key Issue #2—Eliminating the corridor

- 3.6 As noted, the major change to IAS 19 in 2011 was the elimination of the corridor approach. The IASB took the view that deferred recognition can produce misleading information and that immediate recognition provides more relevant information for users. When IPSAS 25 was

developed it was determined that there was no reason to depart from IAS 19 with respect to the option of allowing deferred recognition of actuarial gains and losses.

- 3.7 Now that the option to defer actuarial gains and losses has been eliminated the project will need to consider whether there is a public sector reason to allow the corridor or whether this option should be eliminated from IPSAS 25.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The project is integrally linked to the IASB's accounting standard for employee benefits, IAS 19.

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

- 4.2 There are links to the Conceptual Framework.

(c) Other—Government Finance Statistics

- 4.3 Government Finance statistics will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will guide the approach.

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 approval of the ED 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. Because this is a convergence project staff is of the view that it could be completed expeditiously.

(b) Project timetable (assuming approved to commence late 2015 as limited scope project)

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of Exposure Draft (ED)	January 2016 - June 2016
Approve ED (four month comment period)	June 2016
Review of responses to ED	March-June 2017
Approve revised IPSAS 25	June 2017

(c) Project output

- 5.2 The initial output will be an Exposure Draft converged with the underlying IFRS. Following analysis of the responses to the ED a revised IPSAS 25 will be issued.

6. Resources Required

(a) Task Based Group

6.1 A Task Based Group will assist in overseeing the project.

(b) Staff

6.2 It is envisaged that 0.3 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

6.3 Factors that could add to the complexity and length of the project are the possible emergence of new plans which might impact the scope of the project and identification of public sector specific reasons to depart from IAS 19.

7. Important Sources of Information

7.1 The principal information source of information will be the underlying IFRS on accounting for employee benefits.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Leases

- 1.1 IPSAS 13, *Leases*, was issued in December 2001. It was a converged standard based on IAS 17, *Leases*.
- 1.2 The IASB is in the end stages of a project to revise IAS 17. The objective of the project is to develop a new *Leases* standard that establishes the principles that entities would apply to report useful information to investors and analysts about the amount, timing and uncertainty of cash flows arising from a lease. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.
- 1.3 Leasing is an important activity for many entities. It is a means of gaining access to assets, of obtaining finance, and of reducing an entity's exposure to the risks of asset ownership. The prevalence of leasing, therefore, means that it is important that users have a complete and understandable picture of an entity's leasing activities. The existing accounting models for leases require entities to classify their leases as either finance leases or operating leases. A lessee is not required to recognize lease assets or liabilities for operating leases. Those models have been criticized for failing to meet the needs of users because they do not always provide a faithful representation of leasing transactions. In particular, they omit important information about significant assets and liabilities arising from operating leases. As a result, many analysts and other users adjust the amounts reported in a lessee's financial statements to reflect the assets and liabilities arising from off balance sheet leases, and make other consequential adjustments. However, because of the limited information available, the estimates made are often inaccurate. In addition, many other users do not make adjustments. This creates asymmetry and inaccuracy of information in the market.
- 1.4 The objective of the project would be to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying IFRS. The project would result in a revised IPSAS 13 or a new IPSAS that would replace IPSAS 13.
- 1.5 As noted, the aim of the IASB's leases project is to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position. In August 2010 the IASB and the FASB published an Exposure Draft (ED), *Leases*. The main problem that the project addressed is the position under the current IAS 17, where, if a lease is classified as a finance lease, assets and liabilities are shown on the lessee's statement of financial position, whereas for an operating lease the lessee does not show any assets or liabilities on the statement of financial position. For an operating lease the lessee simply accounts for the lease payments as an expense over the lease term. The IASB issued a revised ED in late 2012. Responses indicate the project is controversial; it was scheduled for approval during 2014 but this has been extended out to the second half of 2015, with some indications this could slip to early 2016.

- 1.6 Because this project is assessing an existing IPSAS it may be less resource intensive than other projects. The responses to the strategy consultation did not rate this project highly. However the responses did support the ongoing alignment of existing IPSASs with underlying IFRSs. If a project to amend IPSAS 13 to be aligned with the new leases standard issued by the IASB is not undertaken, it will be a major divergence in lease accounting. Given the prominence of leases in the public sector this could be problematic.

2. Project Rationale and Objectives

(a) Project rationale

- 2.1 The project rationale is that the IASB's Leases standard is being amended. Since this was the basis for developing IPSAS 13 this will result in a major divergence if IPSAS 13 is not amended.

(b) Objectives to be achieved

- 2.2 The objective is to issue a revised IPSAS 13 (or new IPSAS) on leases accounting which would be converged with the new IFRS.
- 2.3 The intermediate objective is to produce an Exposure Draft of proposed changes.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.4 The project is consistent with the IPSASB's strategic objective of "strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASSs by developing high-quality public sector financial reporting standards".

ii. Link to IFAC Strategic Plan

- 2.5 IFAC's Strategic Plan for 2013–2016, Leading the Way, has two strategic objectives to which this project responds:
- (a) An urgent focus on improved public sector financial reporting; and
 - (b) The development, adoption and implementation of high-quality international standards.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to develop accounting requirements for leases that are converged with the IFRSs.

(b) Key Issues

- 3.2 The key issues are listed below: The list is not exhaustive.

Key issue #1 Problems with existing lease accounting

- 3.3 Lease accounting using IPSAS 13 has historically focused on identifying when a lease is economically similar to purchasing the asset being leased (the 'underlying asset'). When a lease is determined to be economically similar to purchasing the underlying asset, the lease is classified as a finance lease and reported on the lessee's balance sheet. All other leases are classified as

operating leases and are not reported on the lessee's balance sheet. Nevertheless, commitments arise from operating leases as they do from finance leases and other similar financial liabilities.

- 3.4 Consequently, it is argued that a lessee's balance sheet provides a misleading picture about leverage and the assets that the lessee uses in its operations. In addition, the significant difference in accounting for finance and operating leases has created incentives to structure some transactions as operating leases to achieve off-balance-sheet accounting.
- 3.5 Under the proposals of the IASB, a lessee would report assets and liabilities for all leases of more than 12 months on its balance sheet with the goal of providing a more faithful representation of the financial position of the lessee and, together with enhanced disclosures, greater transparency about the lessee's leverage. The proposals require lease assets and liabilities to be measured on a discounted basis. This information is useful to users of financial statements because it provides information about future cash outflows arising from leases, which is comparable with information provided about other financial liabilities that are reported on an entity's balance sheet and measured on a discounted basis.
- 3.6 When IPSAS 13 was developed the determination was made that it would be appropriate for it to be converged with the IFRSs on the basis that the underlying accounting transaction is the same in the public sector – a lease is a lease. The project would need to assess whether this assumption still stands and, if so, develop proposals that are converged with the new IASB standards.

Key Issue #2—Definition of a lease

- 3.7 The new IASB *Leases* standard will contain a definition of a lease and accompanying guidance to assess whether a contract is or contains a lease. This is important because when a contract is or contains a lease the lessee must recognize assets and liabilities arising from the lease on its balance sheet.
- 3.8 At the start of a lease the lessee obtains control of a resource – the right to use an item. So the definition and accompanying guidance focus on whether the lessee controls the use of an item. The guidance in the new IFRS has been changed to align the concept of control more closely to the control principle in other standards and to address issues raised about the existing lease definition guidance.

In most cases assessing whether a contract is a lease or a service is straightforward. However in some cases judgment may be required and the additional guidance addresses such scenarios.

- 3.9 The project will need to consider whether these changes to the definition are appropriate for the public sector and how they affect existing IPSASs.

Key Issue #3— Impact of change in accounting

- 3.10 The proposed IASB changes to lease accounting aim to improve transparency of information about off balance sheet leases. This is a major change that affects many entities and this is likely to be the case also in the public sector. The proposals have taken many years to progress as constituents in the private sector are concerned about the costs of implementing, especially for large volumes of small items. However, the IASB remains committed to addressing the identified deficiencies in existing lease accounting by requiring that lessees recognize assets and liabilities arising from all leases on the balance sheet, with some exemptions.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The project is integrally linked to the IASB's project to amend accounting standards for leases. The timing of the project should be linked to completion of the IASB's project.

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

- 4.2 There are links to the Conceptual Framework and also to other IPSASs, notably IPSAS 17, *Property Plant and Equipment* and IPSAS 32, *Service Concession Arrangements*.

(c) Other—Government Finance Statistics

- 4.3 Government Finance statistics will be considered. The *Process for Considering GFS Reporting Guidelines during Development of IPSASs* (2014) will guide the approach.

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 approval of the ED 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. Because this is a convergence project staff is of the view that it could be completed expediently.

(b) Project timetable (assuming approved to commence late 2015)

Major Project Milestones	Expected Completion
Present draft Project Brief	March 2015
Development of Exposure Draft (ED)	January 2016 - June 2016
Approve ED (four month comment period)	June 2016
Review of responses to ED	March-June 2017
Approve revised IPSAS 13 (or new IPSAS)	June 2017

(c) Project output

- 5.2 The initial output will be an Exposure Draft converged with the underlying IFRS. Following analysis of the responses to the ED a revised IPSAS 13 (or new IPSAS) will be issued.

6. Resources Required

(a) Task Based Group

- 6.1 A Task Based Group will assist in overseeing the project.

(b) Staff

6.2 It is envisaged that 0.3 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

6.3 The factor that will add to the complexity and length of the project is the controversy the project has had in the private sector which could extend to the public sector.

7. Important Sources of Information

7.1 The principal information source of information will be the underlying IFRS on lease accounting.