



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344  
New York, New York 10017 Fax: (212) 286-9570  
Internet: <http://www.ifac.org>

DATE: 12 JUNE 2005  
MEMO TO: MEMBERS OF THE IPSASB  
FROM: PAUL SUTCLIFFE AND LILIAN  
SUBJECT: IMPROVEMENTS – POLICY AND CROSS-REFERENCING

---

## **ACTION REQUIRED**

The Board is requested to:

- **review** the draft IPSASB policy on convergence with IFRSs with a view to its approval for issue with the Improvements ED and/or identification of further amendments;
- **review** staff paper on use of cross referencing within IPSASs included within the improvements project, with a view to agreeing the approach; and
- **draft** exposure draft of amendment to Preface to IPSASs confirming the equal authority approved in IPSASs.

## **ATTACHMENTS:**

|  | Pages         |
|--|---------------|
| 11.2 Draft IPSASB Policy Release: Approach to Convergence of IPSASs with IFRSs | 11.3 – 11.9   |
| 11.3 Staff paper on cross referencing  | 11.10 – 11.17 |
| 11.4 Draft ED Amendment to IPSAS Preface – “Authority of Components of IPSASs” | 11.18 – 11.22 |

## **BACKGROUND**

### *Policy statement*

At its last meeting in Oslo in March 2005, the IPSASB considered a draft Policy Release confirming and documenting the approach adopted to convergence of IPSASs and IFRSs. Members provided staff with directions for amendment to the draft. The attached draft has been updated to include those amendments. It is proposed that this document will be released with the omnibus ED of the improved standards.

### *Staff Paper*

At its November 2004 meeting, the IPSASB agreed that the improved IPSASs would adopt the following phrase when the equivalent IAS/IFRS included references to another IFRSs for which an IPSAS had not been issued: “relevant international or national standards that deal with [insert relevant topic]”.

At its last meeting, the IPSASB directed staff to confirm that the cross referencing to IFRSs had been applied consistently. Of particular concern to members were circumstances in which the December 2003 versions of the IASs/IFRSs introduced additional amendments to

their scope which required particular transactions and events to be accounted for in accordance with IAS 39 “Financial Instruments – Recognition and Measurement” and IAS 41 “Agriculture”.

A staff paper dealing with this matter is attached. Staff are of the view that the IPSASB should continue applying its policy of converging as closely as possible with the equivalent IFRS. This would include updating and replicating scope exclusions and referring to the relevant international or national standards in circumstances in which the IFRS directed the application of another IFRS for which an equivalent IPSAS had not yet been issued.

#### *Equal Authority*

At its meeting in March 2004, the IPSASB predecessor committee (the PSC) agreed that the black letter and grey letter components of all IPSASs should have equal authority going forward. This is consistent with the approach adopted by the IASB. The IPSASs included in the improvements project have been drafted consistent with this approach. All other EDs currently under development have also been drafted consistent with this proposed approach. In addition, IPSAS 21, while not specifying equal authority was also drafted to be consistent with that approach once it becomes effective.

Staff have reviewed the text of all existing IPSASs not included in the improvements package to confirm that the grey letter of those IPSASs do not introduce new requirements not intended by the PSC. As reported previously (New York meeting, July 2004), staff are of the view that the gray letter paragraphs of IPSASs does not introduce new requirements not intended by the IPSASB.

It was agreed that the IPSASB Preface to IPSASs would be updated to explicitly clarify and give effect to this policy. To ensure that IPSASB due process was adhered to, it was also agreed that an ED proposing the amendment to the Preface to IPSASs would be issued with the improvements ED. That draft ED is included at item 11.3. It is proposed that the ED be issued as a separate document with the omnibus ED.

**Paul Sutcliffe**  
**Li Li Lian**

## **Draft IPSASB's Convergence Policy with IFRSs** **[Insert Date]**

*The International Public Sector Accounting Standards Board (IPSASB) remains committed to the objective of converging International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards (IFRSs)<sup>1</sup> unless there is a public sector specific reason for a departure. However, the IPSASB is currently facing resource constraints, and needs to balance the use of its resources across its work program. This means that certain components of the IFRS convergence program have been deferred, until additional resources can be allocated to them.*

### **Introduction**

The International Public Sector Accounting Standards Board (IPSASB) has issued 21 accrual basis International Public Sector Accounting Standards (IPSASs) and one comprehensive Cash Basis IPSAS. The accrual IPSASs based on International Financial Reporting Standards (IFRSs) reflect the same requirements as those IFRSs unless there is a public sector specific reason for a departure. Many of these IPSASs are based on International Accounting Standards (IASs<sup>2</sup>) that were issued in 1998, or earlier. Appendix 1 identifies a list of IPSASs currently on issue (including the equivalent IASs) and provides some background to the IPSASB's Standards Program. The IPSASB's work program currently includes a project intended to update certain of those IPSASs (see the IPSAS Improvements Project below).

The IPSASB's work program priorities for the short (within 1 and 2 years) and medium term (3-5 years) are (in order of priorities):

- 1) Addressing public sector specific issues – for example, non-exchange revenue, social policy obligations, budget reporting, external assistance and heritage assets;
- 2) Convergence of IPSASs with IFRSs – including updating existing IPSASs to converge with updated IFRSs, or issuing new IPSASs based on IFRSs; and
- 3) Convergence of IPSASs with statistical bases of reporting.

The IPSASB currently has insufficient resources to progress its full work program in an appropriate manner. During 2004, it continued its fund-raising activities with limited success. Those fund raising activities will continue during 2005 and the IPSASB is confident that sufficient resources to support a full standards development program will be secured. However, the IPSASB has refocused its short and medium term work program in the light of its current limited resources. As a consequence, its full IFRS convergence program will not be progressed in the short term. (The IPSASB's current work plan for years 2005 – 2007 is attached at Appendix 2.)

---

<sup>1</sup> IFRSs are issued by the International Accounting Standards Board (IASB).

<sup>2</sup> The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended rather than replaced the IASs, in which case the old IAS number remains. Interpretations of the IFRSs (IFRICs) are issued by the International Financial Reporting Interpretations Committee (IFRIC). Interpretations issued by IFRIC's predecessor, the Standards Interpretation Committee (SIC) are termed SICs.

**IFRS Convergence Program in the Short Term**

The IFRS convergence program is currently limited to the IPSAS Improvements Project. This project involves updating 11 IPSASs to reflect the changes made to the improved IASs that were issued by the IASB in December 2003. The IPSASs included in this project are identified in Appendix 1. These proposed improved IPSASs do not incorporate the requirements of IASs/IFRSs which have not yet been reviewed by the IPSASB – because the IPSASB has not yet formed a view on the applicability of their requirements for the public sector. Therefore, the proposed improved IPSASs will not necessarily reflect the requirements of their equivalent IASs on issued as at July 2005. (The IFRSs which the IPSASB has not yet reviewed are identified at Appendix 3.) While not requiring application of the requirements of IFRSs which the IPSASB has not reviewed, in certain cases, the proposed IPSASs allow an entity to apply “international or national accounting standard dealing with [a particular issues]” if there is no relevant IPSAS on issue. This is consistent with proposed IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” which provides that in certain circumstances entities “may also consider ... pronouncements of other standard-setting bodies ... for example, pronouncements issued by the International Accounting Standards Board” in the absence of an IPSAS that specifically applies to the transaction or event.

*Interpretations of IFRSs*

The IPSASB does not issue interpretations of the requirements of IPSASs. Proposed IPSAS 3 also allows entities to consider “... Interpretations issued by the IASB’s International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC)” in developing and applying its accounting policies” in the absence of an IPSAS that specifically applies to the transaction or event. (Appendix 4 lists the Interpretations and the related IFRSs.)

*Conceptual Framework*

The IPSASB has recognized the need to develop a conceptual framework for financial reporting by public sector entities. Any development work will include consideration of the IASB conceptual framework and relevant conceptual frameworks in other jurisdictions. The IPSASB intends to consider a strategy for developing this project in 2006.

**The Way Forward**

The IPSASB will reactivate its full IFRS Convergence Program when additional resources are in place. That program will involve the review of each IAS/IFRS for its applicability to the public sector.

**APPENDIX 1: BACKGROUND OF THE IPSAS STANDARDS PROGRAM****Background**

The Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) was established in late 1986. In August 1997, the PSC embarked on a Standards Program directed at developing International Public Sector Accounting Standards (IPSASs) for financial reporting by public sector entities at the local, state and national government levels. The initial phase of the Standards Program included developing IPSASs based on International Accounting Standards (IASs) promulgated by the former IASC (International Accounting Standards Committee) on issue at August 1997, or their subsequently revised versions, to the extent appropriate to the public sector. This phase of the program was funded by the Asian Development Bank, IFAC, the International Monetary Fund (IMF), the United Nations Development Programme (UNDP) and the World Bank.

In November 2004, IFAC approved a name change and new terms of reference for the Public Sector Committee (PSC). The PSC's name was changed to the International Public Sector Accounting Standards Board (IPSASB) and its terms of reference updated to reflect that the IPSASB will focus on issuing IPSASs.

To date, the IPSASB has issued 22 IPSASs. They consist of 21 accrual basis IPSASs that are based on International Financial Reporting Standards (IFRSs), and a Cash Basis IPSAS. For those IPSASs that are based on IFRSs, the text of the IFRS is retained unless there is a public sector specific reason for a departure, or additional examples are included to illustrate certain requirements in the public sector context.

**IPSASs ISSUED AS AT JULY 2005****Cash Basis**

The Cash Basis IPSAS, "Financial Reporting Under The Cash Basis of Accounting" was issued in January 2003. (There is no equivalent IFRS/IAS for this IPSAS.)

(See next page for list of accrual basis IPSASs)

**Appendix 1 (Continued)****List of Accrual IPSASs with date of issue of the IPSAS, the equivalent IASs and the most recent version of those IASs as at July 2005***(IPSASs identified with \* are included in the IPSAS Improvements Project)*

| <b>Accrual IPSASs</b>  | <b>Issued Date</b> | <b>Equivalent IASs</b> | <b>Most Recent IASs/IFRSs<sup>3</sup></b> |
|--|--------------------|------------------------|---|
| IPSAS 1, "Presentation of Financial Statements"*   | May 2000           | IAS 1 (1997)           | IAS 1 (2004)                              |
| IPSAS 2, "Cash Flow Statements"  | May 2000           | IAS 7 (1993)           | IAS 2 (2003)                              |
| IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"* | May 2000           | IAS 8 (1993)           | IAS 3 (2003)                              |
| IPSAS 4, "The Effect of Changes in Foreign Exchange Rates"*  | May 2000           | IAS 21 (1993)          | IAS 21 (2003)                             |
| IPSAS 5, "Borrowing Costs"   | May 2000           | IAS 23 (1993)          | IAS 23 (2003)                             |
| IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"*                     | May 2000           | IAS 27 (1997)          | IAS 27 (2004)                             |
| IPSAS 7, "Accounting for Investments in Associates"*   | May 2000           | IAS 28 (1998)          | IAS 28 (2004)                             |
| IPSAS 8, "Financial Reporting of Interests in Joint Ventures"*   | May 2000           | IAS 31 (1998)          | IAS 31 (2004)                             |
| IPSAS 9, "Revenue from Exchange Transactions"  | Jul 2001           | IAS 18 (1993)          | IAS 18 (2004)                             |
| IPSAS 10, "Financial Reporting in Hyperinflationary Economies"   | Jul 2001           | IAS 29 (1994)          | IAS 29 (2003)                             |
| IPSAS 11, "Construction Contracts"   | Jul 2001           | IAS 11 (1993)          | IAS 11 (1993)                             |
| IPSAS 12, "Inventories"*   | Jul 2001           | IAS 2 (1993)           | IAS 12 (2003)                             |
| IPSAS 13, "Leases"*  | Dec 2001           | IAS 17 (1997)          | IAS 13 (2004)                             |
| IPSAS 14, "Events After the Reporting Date"*   | Dec 2001           | IAS 10 (1999)          | IAS 10 (2004)                             |
| IPSAS 15, "Financial Instruments: Disclosure and Presentation"*  | Dec 2001           | IAS 32 (1998)          | IAS 32 (2004)                             |
| IPSAS 16, "Investment Property"*   | Dec 2001           | IAS 40 (2000)          | IAS 40 (2004)                             |
| IPSAS 17, "Property, Plant and Equipment" *  | Dec 2001           | IAS 16 (1998)          | IAS 16 (2004)                             |
| IPSAS 18, "Segment Reporting"  | Jun 2002           | IAS 14 (1997)          | IAS 14 (2004)                             |
| IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets"                                     | Oct 2002           | IAS 37 (1998)          | IAS 37 (2004)                             |
| IPSAS 20, "Related Party Disclosures"#   | Oct 2002           | IAS 24 (1994)          | IAS 24 (2004)                             |
| IPSAS 21, "Impairment of Non-Cash-Generating Assets"   | Dec 2004           | IAS 36 (2004)          | IAS 36 (2004)                             |

# Although IAS 24, "Related Party Disclosures" (equivalent IPSAS 20) was also part of the IASB's Improvements Project and an improved IAS was issued in December 2003, IPSAS 20 is not being updated. This is because IPSAS 20 differs from IAS 24 to deal with public sector specific circumstances, and the changes proposed to IAS 24 were not relevant to those aspects in IPSAS 20.

<sup>3</sup> The most recent IASs/IFRSs incorporate the amendments made as a consequence of new IFRS and revised IASs which have been issued.

**APPENDIX 2: IPSASB's WORK PLAN 2005- 2007 [AS AT DD MM YYYY – INSERT DATE]**

|    | Technical Projects                             | 2005  | 2006   | 2007  |
|----|--|---|--|---|
|    | <b>Active/Complete 2005</b>                    |   |  |   |
|    | <b>1.Public Sector Specific</b>                |   |  |   |
| 1  | Revenue - Non-Exchange                         | Finalize/approve/Issue ED                           | Develop/Issue IPSAS                                  | Promote IPSAS/Follow up activity                    |
| 2  | Social Policy Obligations                      | Consider Scope/Develop EDs                          | Issue EDs/Approve IPSAS 1 (non-pension)              | Develop/Issue IPSAS 2 (non pensions)                |
| 3  | Cash Basis- External Assistance                | Issue ED for Cash Basis                             | Develop/Issue Cash Basis IPSAS- consider accrual     | Follow up for accrual IPSASs if necessary           |
| 4  | Budget Actual Comparison (cash + accrual)      | Issue ED  | Develop/Issue IPSAS/update IPSASs                    |   |
| 5  | Heritage Assets-Recog Measurement              | Develop Research Report                             | Issue Research Report/develop ED                     | Issue ED and IPSAS (update IPSAS 17)                |
| 6  | Public/Private S. Arrangements                 | Consider Strategy/follow up action                  | Develop/Issue ED (with IASB?)                        | Develop/Issue IPSAS                                 |
| 7  | Impairment of Assets - non-cash                | Issue IPSAS   |  |   |
| 8  | <b>2.IAS/IFRS Convergence Program</b>          |   |  |   |
| 9  | - IPSAS Improvements Project                   | Issue ED  | Develop/approve revised IPSASs                       | Issue improved IPSASs in handbook                   |
| 10 | 2 - IAS 19 Employee Benefits                   | Consider scope/ re Social Policies                  | Develop/Issue ED                                     | Develop/issue IPSAS                                 |
| 11 | <b>3.GFS, ESA and SNA Harmonization</b>        | Issue Research Rep-TFHPSA meetings                  | Monitor developments                                 | Follow up activity as necessary                     |
| 12 | -Gen Gov. Sector(GGS)                          | Issue ED (GGS)                                      | Issue IPSAS  |   |
|    | Glossary                                       | Issue Glossary IPSAS 1 -21                          | Update if necessary                                  | Update if necessary                                 |
| 13 | <b>In progress by subcom members</b>           |   |  |   |
| 14 | Impairment of Assets - cash- generating        | Consider first draft ED by subcom                   | Issue ED/Develop IPSAS                               | Issue IPSAS (Update IPSAS 21)                       |
| 15 | Occasional Papers                              | Develop/approve USA paper                           | Issue USA Paper/Develop new country paper            | Issue Paper on other country                        |
|    | <b>No Action 2005</b>                          |   |  |   |
|    | <b>1.Public Sector Specific</b>                |   |  |   |
| 16 | 1. Cash Basis IPSAS review                     | No IPSASB action. Monitor any input                 | Review Implementation. Develop implementation report | Update as necessary                                 |
| 17 | 1. Conceptual Framework                        | No Action - monitor IASB-FASB project               | Consider Strategy/Monitor developments               | Develop ED  |
| 18 | 1. Budget GPFS -Prospective Budget             | No action   | Consider status/follow-up activity                   | Follow-up activity                                  |
| 19 | 1. Transitional Guidance - Study 14            | No action   | No action anticipated                                | Update for third edition                            |
| 20 | 1. Survey on adoption of IPSASs                | No action   | Consider Strategy/project brief                      | Develop/Issue paper                                 |
| 21 | 1. Non-financial Performance Reporting         | No action   | Consider Strategy                                    | Follow-up activity                                  |
| 22 | <b>2. IAS/IFRS Convergence Program</b>         | Staff monitor/report IASB work program              | Staff monitor/report on IASB work program            | Staff monitor/report on IASB work program           |
| 23 | 2- Business Combinations                       | No action   | Review/confirm Status/action if resources            | Follow -up activity                                 |
| 24 | 2- Fin. Inst: Recog & Measure.                 | No action   | Review/confirm Status/action if resources            | Follow-up activity                                  |
| 25 | 2- Other IFRSs                                 | No action   | Review/confirm Status/action if resources            | Follow-up activity                                  |
| 26 | <b>2+3.Stat Convrngnce-Performnce Reportng</b> | No action/monitor IASB                              | Consider strategy/follow up activity                 | Follow-up activity                                  |
| 27 | <b>Other Matters: Active</b>                   | Funding, communication, translation, administration | Funding, communication, translation, administration  | Funding, communication, translation, administration |
| 28 | PSC Review follow up                           | Issue Updated Preface in handbook                   | Issue Updated Preface in handbook                    |   |
| 29 | Liaison IFAC+ Committees and Task Forces       | Education, Dev.Nations, others + PIOB               | Education, Dev.Nations, others + PIOB                | Education, Dev.Nations, others + PIOB               |

**APPENDIX 3:  
LIST OF IFRSs/IASs FOR WHICH THERE IS NO EQUIVALENT IPSAS  
[AS AT DD MM YYYY – INSERT DATE]**

- IAS 12, “Income Taxes”
- IAS 19, “Employee Benefits”
- IAS 20, “Accounting for Government Grants and Disclosure of Government Assistance”
- IAS 26, “Accounting and Reporting by Retirement Benefit Plans”
- IAS 30, “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” ##
- IAS 32, “Financial Instruments: Disclosure and Presentation”\*\*
- IAS 38, “Intangible Assets”
- IAS 39, “Financial Instruments: Recognition and Measurement”
- IAS 41, “Agriculture”
- IFRS 1, “First-time Adoption of International Financial Reporting Standards”
- IFRS 2, “Share-based Payments”
- IFRS 3, “Business Combinations”
- IFRS 4, “Insurance Contracts”
- IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”
- IFRS 6, “Exploration and Evaluation of Mineral Reserves”

\*\* The IASB revised IAS 32 in December 2003. The December 2003 version is substantially different from the version on which IPSAS 15 is based on.

## The IASB issued ED 7, “Financial Instruments: Disclosure” in July 2004 to replace IAS 30. It is anticipated that an IFRS emanating from this ED will be issued during 2005.

**APPENDIX 4 LIST OF SICs/IFRICs AND ASSOCIATED PRONOUNCEMENTS  
[AS AT DD MM YYYY – INSERT DATE]**

| <b>SICs/IFRICs</b>  | <b>Associated IFRSs</b>   |
|---|---|
| SIC-7 “Introduction of the Euro”  | IAS 10, “Events After the Balance Sheet Date” and IAS 21, “The Effects of Changes in Foreign Exchange Rates”  |
| SIC-10 “Government Assistance – No Specific Relation to Operating Activities”                                 | IAS 20, “Accounting for Government Grants and Disclosure of Government Assistance”  |
| SIC-12 “Consolidation – Special Purpose Entities”   | IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors” and IAS 27, “Consolidated and Separate Financial Statements”   |
| SIC-13 “Jointly Controlled Entities – Non-monetary Contributions by Venturers”                                | IAS 18, “Revenue” and IAS 31, “Interests in Joint Ventures”   |
| SIC-15 “Operating Leases – Incentives”  | IAS 17, “Leases”  |
| SIC-21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets”   | IAS 12, “Income Taxes” and IAS 16, “Property, Plant and Equipment”  |
| SIC-25 “Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders”                        | IAS 12  |
| SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”                         | IAS 1, “Presentation of Financial Statements”, IAS 17, IAS 18 and IFRS 4, “Insurance Contracts”   |
| SIC-29 “Disclosure – Service Concession Arrangements”   | IAS 1   |
| SIC-31 “Revenue – Barter Transactions Involving Advertising Services”   | IAS 18, “Revenue”   |
| SIC-32 “Intangible Assets – Web Site Costs”   | IAS 1, IAS 2, “Inventories”, IAS 11, “Construction Contracts”, IAS 16, IAS 17, IAS 36, “Impairment of Assets”, IAS 38, “Intangible Asset” and IFRS 3, “Business Combinations” |
| IFRIC 1 “Changes in Existing Decommissioning Restoration and Similar Liabilities”                             | IAS 1, IAS 8, IAS 16, IAS 23, “Borrowing Costs”, IAS 36, IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”   |
| IFRIC 2 “Members’ Shares in Co-operative Entities and Similar Instruments”                                    | IAS 32, “Financial Instruments: Disclosure and Presentation”, IAS 39, “Financial Instruments: Recognition and Measurement”  |
| IFRIC 4 “Determining whether an Arrangement contains a Lease”   | IAS 8, IAS 16, IAS 17, and IAS 38   |
| IFRIC 5 “Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds” | IAS 8, IAS 27, IAS 28, “Investments in Associates”, IAS 31, IAS 37, IAS 39, SIC-12 “Consolidation – Special Purpose Entities”   |

## **Report to IPSASB – IPSASB Improvements Project**

### **Cross Referencing to IASs/IFRSs for which no IPSASs have been issued**

*In the March 2005 (Oslo) meeting, some IPSASB members raised a concern about the consistency of application of the IPSASB's policy regarding cross-references to IFRSs that had not yet been considered by the IPSASB. The IPSASB's position on this matter has evolved over a number of meetings. The matter was finally agreed at the November 2004 (New Delhi) meeting. At that meeting, the PSC<sup>1</sup> provided staff with directions regarding application of the policy. This paper outlines the background to that decision and follow up actions.*

#### **A Background**

(Extracts of relevant minutes are attached in Appendix 1)

##### **March 2004 (Buenos Aires) meeting**

The PSC agreed that in respect of proposed IPSAS 12, "Inventories", and IPSAS 13, "Leases", certain scope clauses would not be changed from the current IPSAS 12 (issued July 2001) and IPSAS 13 (issued December 2001), pending a comprehensive discussion of PSC's policy for dealing with IFRSs (such as IAS 41 and IAS 39) that had not yet been dealt with by the PSC.

The current IPSAS 12 specifies that certain items of agriculture are excluded from its scope to the extent that they are measured at net realizable value in accordance with well established practices in certain industries. This was the wording that was included in the equivalent IAS when the IPSAS was issued. The draft IPSAS that was presented to the PSC in Buenos Aires proposed that the scope clause be changed to specify that certain items of agriculture are excluded from the scope to the extent that they are measured at fair value in accordance with IAS 41, "Agriculture".

##### **July 2004 (New York) meeting**

The PSC considered a policy paper outlining different approaches to converging with IFRSs for which there are no equivalent IPSASs.

The PSC agreed that IPSASs in the Improvements Project should only be converged with the December 2003 version. The IPSASB did not conclude on how cross-references to IFRSs for which an equivalent IPSAS had not been issued (or which the PSC had not reviewed) should be dealt with.

The agenda materials for the July 2004 meeting included proposed IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment". The equivalent 2003 IFRSs exclude from their scope certain transactions and events (for example agriculture) and prescribed that they be accounted for in accordance with other IFRSs (for example IAS 41 Agriculture) which had not yet been reviewed by the IPSASB. The draft improved IPSASs presented for consideration by the IPSASB included alternative approaches to specifying the scope/applicability of the Standards as follows:

- Retain the scope clauses unchanged from the existing IPSASs – public sector entities were therefore prohibited from adopting the requirements in the IASs/IFRSs (or any relevant national accounting standards) for particular transactions or events. This would mean that, for example, public sector entities would then account for biological assets related to agricultural

---

<sup>1</sup> Note: Staff have referred to the PSC for those decisions made prior to the November 2004 meeting and the IPSASB for those after.

activity in accordance with IPSAS 16, rather than in accordance with IAS 41 or any national accounting standards; and

- Include scope clauses that replicated the scope clause of the IFRS- for example, exclude from the scope of the IPSAS “biological assets related to agricultural activity (see IAS 41 Agriculture)”. The hierarchy would propel users towards international or national standards.

At the meeting, the PSC did not review these IPSASs. The PSC only reviewed IPSAS 1, “Presentation of Financial Statements”. The scope of IPSAS 1 was not impacted by the decision in March 2004.

### **November 2004 (New Delhi) meeting**

The PSC agreed that all references to IFRSs (including IASs) for which there is no equivalent IPSAS on issue will be changed to “the relevant international or national accounting standard dealing with (identify the type of transaction or event)” in IPSASs within the IPSAS Improvements Project.

The PSC also agreed that IPSASs outside the General Improvements Project would not be updated. This means that some existing IPSASs will also continue to include cross-references to specific IASs.

#### *Consequential Action following November 2004 meeting*

Staff revised all cross-references in the IPSASs within the Improvements Project to be consistent with the direction given in November 2004. This involved replacing all existing cross-references to IAS 22, “Business Combinations”, IAS 19, “Employee Benefits”, and IAS 39, “Financial Instruments: Recognition and Measurement” with the “standard phrase” as noted above. Amendments were made to all IPSASs included in the improvements project, including those reviewed by the PSC prior to the November 2004 meeting.

Most revisions were made to the first batch of IPSASs issued (i.e. IPSASs 1 – 8). In later IPSASs, the PSC commonly used the phrase “international or national accounting standard dealing with (the particular transaction or event)” or a similar phrase to cross-reference to IASs for which there is no equivalent IPSAS.

### **March 2005 (Oslo) meeting**

The IPSASB reviewed the remaining proposed IPSASs within the IPSAS Improvements Project – IPSAS 7, “Investment in Associates”, IPSAS 8, “Interests in Joint Ventures” and IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”. These IPSASs had been updated to reflect the cross-referencing decisions made in November 2004. In some cases, the equivalent IFRS specified that certain transactions which were accounted for at fair value in accordance with IAS 39, “Financial Instruments: Recognition and Measurement” were excluded from the scope of the IFRS. To converge as closely as possible with this exclusion in the IFRS, the equivalent proposed IPSAS had been revised to specify that these transactions were excluded from the scope of the IPSAS when they were dealt with at fair value in accordance with the relevant international or national accounting standard dealing with financial instruments.

At that meeting, some members expressed concern:

- That the scope clauses of the IPSASs allowed public sector entities to adopt fair value requirements in the international (or national) accounting standard for dealing with certain transactions even though the IPSASB had not reviewed the international standard; and
- About whether cross-references to IFRSs for which there is no equivalent IPSAS within the IPSAS Improvements Project had been applied consistently

Both concerns are valid and need resolution. Staff were directed to provide views on these matters.

## ***B Staff Views***

Staff have reviewed the proposed improved IPSASs and their equivalent IASs, and note that there are two kinds of scope exclusion that make cross-references to IFRSs for which there are no equivalent IPSASs:

1. For IPSASs 12, 13, 16 & 17: The equivalent IASs exclude biological assets from their scope and direct entities to IAS 41, "Agriculture".
2. For IPSASs 4, 7 & 8: The equivalent IASs exclude from their scope certain financial instruments that are dealt with by IAS 39, "Financial Instruments: Recognition and Measurement".

Staff are of the view that key components in the resolution of this issue are:

1. Consistent application of the IPSASB approach/policy to convergence in all IPSASs;
2. Consistent approach in the specification of the scope paragraphs in the improved IPSASs; and
3. Not to mandate the adoption of IFRSs which the IPSASB has not yet reviewed.

### *Preferred Approach*

Staff believe that updating the scope clauses of the IPSASs to reflect their equivalent IASs/IFRSs as at December 2003 (except that a cross reference to a specific IAS/IFRS for which an equivalent IPSAS has not yet been issued will be replaced with the general reference to international or national accounting standards dealing with the matter) best fits with:

- The IPSASB objective of converging with the IFRSs unless there is a specific public sector reason to depart;
- The policy decision regarding cross referencing to IFRSs for which there is no equivalent IPSAS; and
- The objective of ensuring consistency in construction of IPSASB scope clauses without prescribing adoption of specific IFRSs.

Adopting this approach would mean that public sector entities are not prohibited from adopting the relevant international or national requirements in the limited cases dealt with by the scope clauses. Staff are of the view that this is appropriate given that there are no equivalent IPSASs that deal with the specific circumstances in question. It also retains the spirit of the initial IPSASs. Hence, for example, references in the existing scope paragraphs of IPSAS 16 (issued December 2001) and IPSAS 17 (issued December 2001) that the IPSASs do not apply to "forests and similar regenerative natural resources" would be updated to "biological assets related to agricultural activity (see the relevant international or national accounting standard dealing with agriculture). Similarly, the references in the existing scope of IPSAS 4 (issued May 2000) that, broadly, IPSAS 4 does not deal with certain hedge accounting for foreign currency items (but that guidance of hedge accounting can be found in IAS 39) would be updated to "except for those derivative transactions and balances that are within the scope of international and national accounting standards that deal with the recognition and measurement of financial instruments".

This means that entities are not precluded from applying IAS 41 and IAS 39. This approach is not inconsistent with the ‘hierarchy’ of authoritative pronouncements in the proposed IPSAS 3 included in the Improvements Project – IPSAS 3 provides that, in selecting an accounting policy, an entity may consider the pronouncements of other standard-setting bodies when an IPSAS does not deal with a specific transaction or event, provided that the pronouncements do not conflict with IPSASs.

Staff have considered the implications of this preferred approach to other IPSASs, including those not within the Improvements Project, and do not believe it impacts the relationship between IPSASs (whether in or outside the Project). In fact, some IPSASs outside the Project also make references to specific IASs (see next paragraph).

A major concern expressed at the Oslo meeting was that IAS 41 and IAS 39 included fair value accounting models and IPSASs based on those IASs had not yet been issued. Staff note that there is precedent for IPSASs to refer to IASs which have not yet been reviewed by the IPSASB, including those that adopt the fair value approach – for example:

- IPSAS 4 (issued May 2000) notes that guidance on hedge accounting can be found in IAS 39;
- IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” (issued October 2002) paragraph 6 notes that guidance on accounting for discontinuing operations can be found in IAS 35 “Discontinuing Operations”;
- IPSAS 17, “Property Plant and Equipment” (issued December 2001) paragraph 5 notes that IAS 22 “Business Combinations” provides guidance on valuing property plant and equipment acquired in a business combination;
- IPSAS 17 (paragraph 66) specifies “...To determine whether an item is impaired, an entity applies the appropriate international or national accounting standard, dealing with impairment of assets. International Accounting Standard IAS 36, “Impairment of Assets” contains guidance on reviewing the carrying amount of assets held for generating positive cash flows, determining the recoverable amount of such assets and the recognition of impairment losses.”; and
- IPSAS 21, “Impairment of Non-cash-generating Assets” (issued December 2004) paragraph 39 notes that “termination benefits (as defined in IAS 19, “Employee Benefits”) ... are not direct incremental costs to dispose of the asset”.

While supporting this approach, staff are also of the view that the ED should include as a specific matter for comment, a request for views on this matter.

This approach has been adopted in the scope clauses in the omnibus ED. The Basis for Conclusions outlines the rationale for this approach. An extract of the draft Basis for Conclusions is attached in Appendix 2.

#### *Alternative Approaches*

An alternative approach is not to update the scope clauses in existing IPSASs in those circumstances where the December 2003 version of the equivalent IAS/IFRS have been updated to require/allow adoption of IFRSs which have not yet been reviewed by the IPSASB.

Staff are of the view that this approach is less desirable than the preferred approach because it does not allow adoption of international or national accounting standards dealing with agriculture and recognition and measurement of financial instruments in the specific circumstances identified in the

December 2003 version of the equivalent IAS/IFRS. Appendix 2 provides a draft basis for conclusions reflecting this alternate approach.

Staff considered and rejected other possible approaches, including updating the scope clauses of all IPSASs consistent with the preferred approach above, except for IPSASs 12 and 13. This was rejected because it would result in inconsistency within the IPSAS Improvements project, and would not address the concerns of members.

## Appendix 1: Extract of Minutes

### March 2004 (Buenos Aires) meeting

“With respect to IPSAS 12, the Committee agreed with the changes proposed by staff except the scope exclusion related to biological assets in paragraph 2(c). Staff noted that the proposed change in paragraph 2(c) was consistent with the PSC’s policy for dealing with a topic where an IPSAS does not exist but the PSC wished to reflect the substance of the proposed IAS/IFRS. However, some members expressed the view that the existing requirement should not be changed until the PSC reviewed the applicability of IAS 41 to public sector entities. The Committee agreed that paragraph 2(c) be retained as it is in the current IPSAS 12 pending a comprehensive discussion of PSC’s policy on IASs/IFRSs that have not yet been dealt with by the PSC such as IAS 41 and IAS 39; ... “

### July 2004 (New York) meeting:

“The PSC agreed that the IASB convergence program for the medium term should comprise:

1. The General Improvements Project – this project would deal with the eleven existing IPSASs being updated consequential on the IASB’s improvement project. These IPSASs would be updated to reflect the changes resulting from the IASB Improvements project. In respect of amendments for IASs/IFRSs for which an IPSAS had not yet been issued, the cross-referencing to those IASs/IFRSs should adopt a similar style to that adopted in the existing IPSASs including the recently approved IPSAS 21; ...”

*Staff Note: re IPSAS 21, “Impairment of Non-cash-generating Assets”*

*IPSAS 21 makes specific reference to IAS 36, “Impairment of Assets” (e.g. paragraphs 5 and 11) and IAS 19, “Employee Benefits” (paragraph 39). However in the November 2004 meeting (see below), the IPSASB agreed that cross-references should be to international or national accounting standards rather than to a specific IAS/IFRS.*

### November 2004 (New Delhi meeting)

“Hongxia Li then outlined the major changes in IPSAS 17, “Property, Plant and Equipment”, IPSAS 16, “Investment Property” and IPSAS 6, “Consolidated and Separate Financial Statements” respectively. The Committee undertook a page by page review of the 3 marked-up IPSASs and agreed with the proposed changes in these IPSASs subject to the following amendments:

2. The reference to IAS 12, “Income Taxes” in paragraph 58 should be changed to “the relevant international or national accounting standard dealing with income taxes”. The same style of cross-referencing should be adopted in all IPSASs under the General Improvements Project for which there is no IPSAS on issue and should be consistent with the hierarchy proposed in IPSAS 3; “

## Appendix 2: Draft Basis for Conclusions

### Current Draft – Update scope clauses to reflect equivalent IAS/IFRS

*Note: This Basis for Conclusions is an extract from the draft Basis for Conclusions as currently drafted in the omnibus ED*

BC9. In some cases, the improved IASs specify the application of another IFRS. Where an IPSAS based on that IFRS has been issued, a reference to it (the IPSAS) is included in the proposed IPSASs. Where there is no equivalent IPSAS, the proposed IPSASs allow entities to apply the relevant international or national accounting standard dealing with that particular issue. For example, in accordance with:

- (a) IPSASs 12, 13, 16, and 17, an entity may apply the relevant international or national accounting standards that specify the accounting requirements on agriculture; and
- (b) IPSASs 7 and 8, an entity may apply international or national accounting standards that specify the recognition and measurement of financial instruments in accounting for certain types of associates and joint venture entities such as mutual funds or unit trusts.

BC10. This approach reflects the proposed ‘hierarchy of pronouncements’ in IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”. The hierarchy provides that, in the absence of an IPSAS dealing with a particular transaction, event or condition, an entity may consider relevant international or national accounting standards dealing with that particular issue provided they do not conflict with IPSASs.

BC11. A number of IFRSs issued on December 2003 have been further amended as a consequence of IFRSs issued after December 2003. The proposed IPSASs do not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

### Alternative Approach – Do not update scope clauses to replicate the IAS/IFRS exclusion, but require application of IPSASs

BC9. In some cases, a particular transaction or event is excluded from the scope of an improved IAS. The improved IAS specifies the application of another IFRS for these transactions or events. Where an IPSAS based on that other IFRS has been issued, a reference to it (the IPSAS) is included in the proposed IPSAS. Where there is no equivalent IPSAS, the scope exclusion in the IAS is not replicated. Consequently, entities must apply the requirement of the IPSAS rather than relevant international or national accounting standards dealing with that particular transaction or event. If and when the IPSASB has issued an equivalent IPSAS, the IPSASB will consider whether the scope clause should be amended to reflect the equivalent IAS. Consequently:

- (a) IPSASs 12, 13, 16 and 17, prohibit public sector entities from applying international or national accounting standards that specify the accounting requirements on agriculture in specific circumstances; and
- (b) In IPSASs 7 and 8, prohibit public sector entities from applying international or national accounting standards that specify the recognition and measurement of financial instruments in accounting for certain types of associates and joint venture entities such as mutual funds or unit trusts.

- BC10. In some other cases, IPSASs already note that guidance can be found in a specific IAS. For example, existing IPSAS 17 notes that IAS 22 “Business Combinations” provides guidance on valuing property plant and equipment acquired in a business combination and existing IPSAS 4 notes that guidance on hedge accounting can be found in IAS 39, “Financial Instruments: Recognition and Measurement”. The IPSASB is of the view that given that the IPSASs already note that guidance on certain transactions can be found in IASs, it is not appropriate to now prohibit entities from adopting the relevant international or national accounting standards in respect of these circumstances. This approach is consistent with the proposed ‘hierarchy of pronouncements’ in IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”. The hierarchy provides that, in the absence of an IPSAS dealing with a particular transaction, event or condition, an entity may consider relevant international or national accounting standards dealing with that particular issue provided they do not conflict with IPSASs.
- BC11. A number of IFRSs issued on December 2003 have been further amended as a consequence of IFRSs issued after December 2003. The proposed IPSASs do not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The International Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

Copies of this Exposure Draft may be downloaded free of charge from the IFAC website at <http://www.ifac.org>.

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017 USA  
<http://www.ifac.org>  
Fax: +1 (212) 286-9570

Copyright © MM 200X by the International Federation of Accountants. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "Copyright © MM 200X by the International Federation of Accountants. All rights reserved. Used with permission."

For more information, contact [permissions@ifac.org](mailto:permissions@ifac.org).

## COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Preface to International Public Sector Accounting Standards (the Preface) in the light of comments received before being issued in the form of the Preface.

Comments should be submitted in writing so as to be received by [DATE]. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director  
International Public Sector Accounting Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
United States of America

Fax: +1 (212) 286-9570

E-mail Address: [publicsectorpubs@ifac.org](mailto:publicsectorpubs@ifac.org)

## **INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in this Exposure Draft.

The IPSASB issues IPSASs dealing with financial reporting under the accrual basis of accounting and the cash basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

### **Due Process**

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in this Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed amendment in the light of the comments received before proceeding to issue the final Preface to International Public Sector Accounting Standards (the Preface).

### **Request for Comments**

Comments are invited on any proposals in this Exposure Draft by Month XX, 200X. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issue in the Exposure Draft.

Until the revised Preface becomes effective, the existing Preface (2004) remains in force.

## **Background to the revision of the Preface**

The Preface sets out the objectives and operating procedures of the IPSASB and explains the scope and authority of the IPSASs. Currently each IPSAS explains that “the standards which have been set in bold type, should be read in the context of the commentary paragraphs ...”.

The IPSASB is of the view that the ‘black letter’ standards and the commentary have equal authority and this should be made clear. Therefore, the IPSASB proposes that the Preface be amended to clarify that view. Each IPSAS will then include a statement to clarify what forms part of the IPSAS and what is for illustrative purposes only. The IASB also specifies in its “Preface to International Financial Reporting Standards” that “standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority.” Therefore, clarification that ‘black letter’ standards and commentary paragraphs have equal authority in IPSASs is consistent with the IPSASB’s IFRS Convergence Policy.

## **Specific Matters for Comment**

### **Question**

The IPSASB would value comment on whether you agree with the proposed amendments to the Preface to clarify that the paragraphs in bold type and plain type in IPSASs have equal authority.

## **PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

### **Scope and Authority of International Public Sector Accounting Standards**

[Add new paragraph 9A]

- 9A. IPSASs approved by the IPSASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual IPSAS should be read in the context of the objective stated in that IPSAS and this Preface.



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor      Tel: (212) 286-9344  
New York, New York 10017      Fax: (212) 286-9570  
Internet: <http://www.ifac.org>

DATE: 12 JUNE 2005  
MEMO TO: MEMBERS OF THE IPSASB  
FROM: LI LI LIAN AND HONGXIA LI  
SUBJECT: **IPSAS IMPROVEMENTS PROJECT ED**

---

**ACTION REQUIRED**

The IPSASB is asked to:

- **review** and **approve** the draft omnibus Exposure Draft subject to any amendments agreed at the meeting) for publication.

**AGENDA MATERIAL:**

|                                   | Pages          |
|-----------------------------------|----------------|
| 11.6 History Sheet of the Project | 11.26 – 11.27  |
| 11.7 Draft Omnibus ED             | 11.28 – 11.349 |

**BACKGROUND**

In November 2003, the PSC agreed to update the relevant IPSASs to converge with the IASs in the IASB's General Improvements Project. The final IASs were issued in December 2003. During 2004 and early 2005, the IPSASB (and the former PSC) reviewed the proposed amendments to each of the 11 existing IPSASs on a page-by-page basis (the final 3 proposed IPSASs were reviewed at the March 2005 (Oslo) meeting). The IPSASB did not review the specific matters for comment and the basis for conclusions to the ED.

The 11 proposed IPSASs have been updated to deal with the directions given by the IPSASB when they were reviewed. Major issues that emerged in making the amendments are noted below.

Item 11.6 History Sheet provides a high level summary of the PSC's/IPSASB's decisions throughout the IPSAS General Improvements Project. For more details of the decisions, an extract of the minutes of each meeting is available upon request.

*Process*

Given the volume of material, it is proposed that the process for review of this ED is to consider:

- the omnibus ED on a proposed IPSAS by IPSAS (rather than a page by page) basis. Staff will draw members' attention to the specific matters for comment and any issues which emerged in implementing the IPSASB's directions;
- 'Introduction' to the ED; and
- The Basis for Conclusions.

## MAJOR AMENDMENTS/POINTS TO NOTE

### (i) Equal Authority Rubric

In March 2004 (Buenos Aires) meeting, the IPSASB agreed that the rubric for each IPSAS should mirror the IASB's rubric. (The rubric is the boxed text set out at the front of each Standard. The rubric to a Standard identifies the material that constitutes the authoritative component of the Standard, and the IPSASB documents that provide the context in which the IPSAS should be read.)

The Non-exchange Revenue ED proposes slight a amendment to the rubric (proposed amendments in mark-up) used by the IASB in its IFRSs and previously reviewed and agreed by the IPSASB in this project.

International Public Sector accounting Standard XX, "Revenue from Non-Exchange Transactions" (IPSAS XX) is set out in paragraphs 1 – YY. All the paragraphs have equal authority except as noted otherwise. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the "Preface to the International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

### (ii) Scope Exclusions

At the last meeting, IPSASB members requested staff to confirm the consistency of application of cross-referencing to IASs/IFRSs for which an IPSAS has not been issued to specify those IASs/IFRSs. The policy agreed at the November 2004 (New Delhi) meeting was to replace those IASs/IFRSs references to "the relevant international or national accounting standard dealing with [specific topic]". Members also requested staff to consider whether cross reference to "the relevant international or national accounting standard dealing with ..." the recognition and measurement of financial instruments and agriculture was appropriate. Staff views on this are considered in the *staff paper (item 11.3)*.

IPSASs impacted by this scope issue are: IPSAS 7, "Accounting for Investment in Associates", IPSAS 8, "Financial Reporting of Interests in Joint Ventures", IPSAS 12, "Inventories", IPSAS 13, "Leases", IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment".

### (iii) Transitional Provisions – First-time Adoption of Accrual Accounting in accordance with IPSASs

At November 2003 (Berlin) meeting, the PSC agreed that transitional provisions from IFRS 1, "First-time Adoption of International Financial Reporting Standards" which provided more relief than in existing IPSASs should be adopted. As directed, these transitional provisions were included in the relevant IPSASs – proposed IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" and IPSAS 14, "Events After Reporting Date". The PSC/IPSASB reviewed these new transitional provisions when reviewing the individual IPSASs.

However, staff propose the deletion of the transitional provision in IPSAS 14. This is because staff do not believe that this transitional provision will provide any additional relief to constituents because, unlike IFRS 1, IPSASs do not require the presentation of an opening balance sheet. (IFRS 1 defines opening IFRS balance sheet as an entity's balance sheet at the date of transition to IFRSs. Date of transition is defined as the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statement.) If the IPSASB decides to retain this transitional provision in IPSAS 14, staff propose that this IPSAS provides guidance on what constitutes the 'date of transition'.

**(iv) Transitional Provisions –Entities which previously adopted IPSASs**

The PSC introduced in some IPSASs transitional periods for entities to fully comply with the requirements in that those IPSASs. For example, IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" currently allows entities a period of 3 years to eliminate inter-entity balances and transactions within the economic entity. Other IPSASs that have similar transitional provisions are: IPSAS 8, "Financial Reporting in Joint Ventures", IPSAS 13, "Leases", IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment".

When the IPSASB reviewed these proposed IPSASs, the IPSASB noted that the IPSASs did not adequately address entities that were in the midst of taking advantage of those transitional provisions. As directed, staff have included an additional paragraph to deal with this matter in the relevant IPSASs.

**(v) Implementation Guidance in IPSAS 17**

At the November 2004 meeting, the IPSASB directed staff to include Implementation Guidance in IPSAS 17, "Property, Plant and Equipment" on the application of frequency of revaluation of property, plant and equipment. This has been done.

**(vi) Basis for Conclusions**

There is only 1 Basis for Conclusions for the IPSAS Improvements Project ED. This follows the direction given at the March 2004 (Buenos Aires) meeting where the PSC agreed that for this Project, one Basis for Conclusions. This Basis for Conclusions would focus on the reasons why the IPSASB updated the IPSASs and the reasons why the IPSASB decided that certain requirements in IPSASs should depart from the equivalent requirements in IFRSs. The IPSASB would not replicate the reasons for other changes (proposed by the IASB) which the IPSASB agreed to adopt in its IPSASs.

**Li Li Lian**  
**Hongxia Li**

## IPSASs Improvement Project

### *History Sheet*

| PSC MEETING          | ACTION   |
|----------------------|--|
| <b>MAY 2002</b>      | IASB issued ED of Proposed <i>Improvements to IASs</i> (Comments to be received by 16 Sept 02)   |
| <b>JULY 2002</b>     | <ul style="list-style-type: none"> <li>• Subcommittee considered the invitations to comment by the IASB.</li> <li>• NZ Member and TA assisted PSC staff to prepare a submission.</li> <li>• Submission was approved by PSC and sent on 19 Sep 2002.</li> </ul>   |
| <b>APRIL 2003</b>    | <ul style="list-style-type: none"> <li>• PSC noted that IPSASs should reflect the requirements in the equivalent IASs/IFRSs.</li> <li>• Members directed Staff to prepare a paper identifying differences between updated IASs/IFRSs and equivalent IPSASs.</li> </ul>   |
| <b>JULY 2003</b>     | PSC reviewed Staff paper. Members have different views on whether an IPSAS Improvement project should be actioned immediately. Staff were directed to prepare a paper outlining options and their resource implications.   |
| <b>NOVEMBER 2003</b> | <p>Staff prepared a strategy paper that outlined 3 approaches available to PSC and their resource implications.</p> <p>PSC reviewed staff paper and agreed:</p> <ul style="list-style-type: none"> <li>• that the IPSASs based on equivalent IASs included in IASB Improvements project should be updated;</li> <li>• that going forward the PSC should, when converging its IPSASs with IASs/IFRSs, change as little as possible of the original IAS/IFRS text and provide clear indications why a change was made; and</li> <li>• to review the changes made by the IASB in the General Improvements Project in the next meeting and determine if IPSASs were to be updated.</li> </ul> <p>Staff were directed to mark-up the 11 IPSASs in the Improvements Project to reflect changes made in their equivalent improved IASs.</p>       |
| <b>MARCH 2004</b>    | <p>PSC consider staff paper on general issues and agreed on:</p> <ul style="list-style-type: none"> <li>• Equal authority doctrine - Staff to confirm that grey letter commentary paragraph terminology appropriate;</li> <li>• Updating the <i>Preface</i>;</li> <li>• Inclusion of one Basis for Conclusions for the whole package of the improved IPSAS;</li> <li>• Renaming certain Appendices as Implementation Guidance;</li> <li>• Use “shall” rather “should” for black letter requirements;</li> <li>• Not to define IPSASs as the PSC does not possess a range of authoritative pronouncements;</li> <li>• Where IASB refers to the <i>Framework</i>, the IPSASs to refer to the definitions, recognition and measurement criteria in IPSASs;</li> <li>• Prepare English, French and Spanish version of final IPSASs;</li> </ul> |

| PSC MEETING          | ACTION   |
|----------------------|--|
|                      | <ul style="list-style-type: none"> <li>• Some members advocated that a stable platform of IPSASs be established.</li> </ul> <p>Staff were directed to prepare a strategy paper that outlined:</p> <ul style="list-style-type: none"> <li>• Revise the <i>Preface</i> to reflect equal authority;</li> <li>• Options to deal with ongoing convergence of IPSASs with IFRSs; and</li> <li>• The resources to support convergence program.</li> </ul> <p>The PSC approved changes in IPSASs 12, 13, 14, subject to the amendments relating to agriculture in IPSAS 12. Existing requirements in IPSAS 12 relating to agriculture should not be updated because the PSC had not reviewed the applicability of IAS 41 to public sector entities. This decision impacts IPSAS 13, IPSAS 16 and IPSAS 17 and is subject to a general policy review regarding cross- referencing.</p>  |
| <b>JULY 2004</b>     | <p>The PSC agreed that the IASB convergence program for the medium term would comprise IPSAS 21 and:</p> <ul style="list-style-type: none"> <li>• IPSASs under the General Improvements project - cross-referencing to IASs/IFRSs for which there was no equivalent IPSAS should adopt a similar style to that adopted in the existing IPSASs;</li> <li>• The initiation of projects dealing with IFRSs/IASs for which there was no IPSAS on issue would be deferred; and</li> <li>• The remaining 9 IPSASs that are not part of the General Improvements project could be further updated reflecting amendments made to their equivalent IASs/IFRSs as of the end of 2004 if resources allowed.</li> </ul> <p>The PSC approved changes in IPSAS 1, except that IPSAS 1 is not to preclude the presentation of extraordinary items. It was also agreed that:</p> <ul style="list-style-type: none"> <li>• A withdrawal paragraph will be included in all EDs amending IPSASs.</li> </ul> |
| <b>NOVEMBER 2004</b> | <p>The PSC approved changes in IPSAS 17, 16, 6 and 3 subject to minor amendments and application of a general policy on cross referencing. Policy on cross-referencing to be adopted in all IPSASs in Improvement Project agreed. All references to specific IASs/IFRSs for which there is no IPSAS on issue be changed to “the relevant international or national accounting standard dealing with XX”.</p>   |
| <b>MARCH 2005</b>    | <p>The IPSASB reviewed and approved the IASB Convergence Policy document and changes in IPSAS 7, 8 and 4, subject to minor amendments:</p> <ul style="list-style-type: none"> <li>• IPSASB direct staff to confirm that the policy of cross-referencing to IASs/IFRSs had been applied consistently throughout all IPSASs under the General Improvements Project.</li> <li>• Consider the implication of adoption of fair value in the circumstances specified in IPSAS 7, 8 and 4 for other IPSASs.</li> </ul>  |