

**Approved Minutes of the Meeting of the
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**

Held on June 27–30, 2017 in Luxembourg, Luxembourg

1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance

Voting Members

Present:

- Ian Carruthers (Chair)
- Stuart Barr
- Mike Blake
- Lindy Bodewig
- Michel Camoin
- Francesco Capalbo
- Robert Dacey
- Sebastian Heintges
- Kenji Izawa
- Aracelly Méndez
- Rod Monette
- Leonardo Nascimento
- Chris Nyong
- Bernhard Schatz
- Adriana Tiron Tudor
- Marc Wermuth
- Juan Zhang

Technical Advisors

- Claudia Beier (Mr. Wermuth)
- Takeo Fukiya (Mr. Izawa)
- Baudouin Griton (Mr. Camoin)
- Anthony Heffernan (Ms. Ryan)
- Evelyn Ling (Mr. Blake)
- Leona Melamed (Mr. Monette)
- Fabrizio Mocavini (Ms. Tiron Tudor)
- Juan Moreno Real (Ms. Méndez)
- Ayres Moura (Mr. Nascimento)
- Giovanni Parente (Mr. Capalbo)
(Tuesday-Wednesday)
- Renée Pichard (Mr. Barr)
- Jeanine Poggiolini (Ms. Bodewig)
- Jakob Prammer (Mr. Schatz)
- Gillian Waldbauer (Mr. Heintges)
- David Watkins (Mr. Carruthers)
- Haifeng Yang (Ms. Zhang)

Non-Voting Observers

Present: Sagé de Clerk (IMF)
Jerry Gutu¹ (United Nations)
Keith Hayes (Eurostat)
Chai Kim (ADB) (Tuesday-Wednesday)
Martin Koehler (European Commission) (Tuesday-Thursday)
Manfred Kraff (European Commission) (Tuesday)
Delphine Moretti (OECD)
Thomas Müller-Marqués Berger (CAG Chair)
Chetana Neerchal² (World Bank)
John Verrinder (Eurostat)

Apologies: Angela Ryan
Dinara Alieva (UNDP)
Guohua Huang (IMF)
Jani Laakso (World Bank)
Takatsugu Ochi (IASB)
Chandramouli Ramanathan (UN)
Darshak Shah (UNDP)

IPSASB/IFAC Staff

Present: João Fonseca, IPSASB
James Gunn, Managing Director, Professional Standards (Tuesday)
Gwenda Jensen, IPSASB
Ross Smith, IPSASB
Joanna Spencer, IPSASB
John Stanford, IPSASB
Paul Mason, IPSASB
Dave Warren, PSAB, CPA Canada

¹ Jerry Gutu attended the meeting in place of Chandramouli Ramanathan

² Chetana Neerchal attended the meeting in place of Jani Laakso

Dr. Silke Stapel-Weber, Director of Directorate C, National Accounts, Prices and Key Indicators, at Eurostat welcomed IPSASB to the Bech Building in Luxembourg. Dr. Stapel-Weber emphasized the importance of fiscal transparency as a public interest issue to both Eurostat and IPSASB and the common challenges facing both bodies. Many of the items on the IPSASB's agenda were also being considered in the project to develop European Public Sector Accounting Standards (EPSAS) and there had been considerable joint-working. Dr. Stapel-Weber acknowledged the close relationship that had developed between IPSASB and Eurostat since 2013, and recognized the introduction of a formal governance structure and the completion of the Conceptual Framework as particularly important milestones for the IPSASB. Dr. Stapel-Weber noted that there has been a lot of discussion about GPFs and their main users, who in her view were ultimately the citizens and their representatives and we should all bear in mind that citizens are not necessarily finance or financial accounting experts. Dr. Stapel-Weber also suggested that the expectations of constituents as to what can be achieved by standard setters need to be managed. In conclusion Dr. Stapel-Weber said that she would follow the meeting with interest, noted that the meeting agenda was very rich and gave her best wishes to the IPSASB for a successful meeting.

The Chair thanked Dr. Stapel-Weber and Eurostat for hosting the IPSASB. He echoed Dr. Stapel-Weber's views on common agendas and the public interest. He expressed his pleasure that the IPSASB was meeting at the Eurostat Headquarters, which was where the staff engaged on the EPSAS project were based. He looked forward to interesting and constructive debate and the dinner hosted by Eurostat at the end of the first day, which would be an enjoyable break from the hard work at the meeting.

The minutes of the meeting from March 7–10 2017 were approved, subject to a minor amendment to Agenda Item 10, Social Benefits, adding the word "option" to the term "key participatory events obligating event".

Keith Hayes, the Eurostat Observer updated the IPSASB on developments in the EPSAS project. Keith reiterated the point made at previous IPSASB meetings, that the current aim of the project is to firstly increase fiscal transparency in the member states, while developing the EPSAS framework, then seeking to ensure comparability in the mid-to-longer term.

Keith highlighted recent EPSAS meetings:

- **Cell on Principles underlying EPSAS Governance** – the cell had met on March 28 and had finalized its report on governance principles
- **Cell on Principles related to EPSAS Standards** – the cell had met on March 29. The main issues discussed were:
 - Going concern (continuity of government);
 - Need for a hierarchy of accounting principles; and
 - Definitions of accounting principles.
- **Cell on EPSAS First Time Implementation (FTI)** – The first version of the EPSAS FTI guidance note had been finalized and made available on the EPSAS website.
- **EPSAS Working Group (WG)** – The WG had met on April 26-27 in Lisbon, hosted by the Portuguese Ministry of Finance. The WG had received updates from the cells and had considered five issues papers. The main discussion at the WG had been on:
 - Updates from the EPSAS cells

- Five EPSAS issues papers
 - Accounting for heritage items;
 - Accounting for infrastructure assets;
 - Accounting for social contributions;
 - Accounting for military assets; and
 - Accounting for segment reporting
- Current developments in members states
- Funding of accruals accounting modernization in the Member States.

Mr. Mario Centeno, the Portuguese Minister of Finance attended the closing of the WG meeting. He spoke about the important Public Sector Accounting Reform in Portugal, which was presently taking place, and he strongly endorsed the EPSAS project, which, he said, was important for the European construction. On April 28 a national conference was held on accruals and the ongoing reform in Portugal.

Eurostat had commissioned a total of 10 EPSAS issues papers in 2016. The aim of the papers is to initiate and structure discussion with the member states. Eurostat was also commissioning a further 10 issues papers in 2017, the first seven of which were:

- Accounting treatment of intangible assets;
- Principled approach to disclosures;
- Member States' approaches to harmonizing charts of accounts for national purposes;
- Provisions, contingent assets, contingent liabilities and financial guarantees;
- Loans and borrowings;
- Grants and other transfers; and
- Discount rates.

In addition Eurostat and its consultants had commenced work to analyse some further important "impact considerations":

- Lessons learnt from experiences of accruals implementation;
- Capacity issues in the Member States;
- How EPSAS might support financial audit and control in the Member States and in the European Union context;
- The measurement and monitoring of the transparency of public sector financial reporting in the Member States.

The EPSAS project will also aim to widen its communication activities with stakeholders.

The Chair thanked Keith for the update.

The IPSASB noted the summary of the IASB Work Plan, the IFRS Tracking Table and the GFS Tracking Table.

2. Report on Activities/Communication Activities (Agenda Item 2)

Mr. Leonardo Nascimento provided a summary of his recent outreach activities related to the adoption of accrual IPSAS in Brazil. This was the first time that outreach had been a discrete agenda item with a specific member discussing recent outreach activities in his/her jurisdiction. The presentation highlighted the scope

of the ongoing project and some of the challenges encountered. Mr. Nascimento noted the political and economic context in Brazil. The impetus for adoption of accrual accounting came from a desire by citizens for greater transparency of, and accountability for, public sector finances.

Mr. Nascimento noted that his main outreach and communication activities in the April to June 2017 period concentrated on state and local governments, auditors, development banks, regulators, rating agencies, academia and the Brazilian confederation, GTCON, all of which were key to the IPSAS convergence process. These activities included:

- Participation in the opening event of the “Accounting and Finance Week for the Brazilian States and Municipalities” conference;
- Meeting of the Public Sector Accounting Technical Committee of the Brazilian Federation – of which Leonardo is the chair;
- Meeting of the Brazilian Public Sector Accounting Standards Advisory Board;
- Meeting with public finance and accountability leaders and institutions;
- Meeting on the institutional strategy on transparency of public sector accounts and standard-setting process with the Inter-American Development Bank;
- Seminars on public sector accounting in the states of Parana and Sergipe; and
- Inter-American Regional Seminar: Ethics and Transparency on Public Administration with several Latin American representatives.

IPSASB members commented that they found the presentation very interesting, noting it was specifically good to hear about the reasons behind the Brazilian reforms and the scope of the reforms. They welcomed the initiative to have a standing agenda item on the progress of accrual adoption in different jurisdictions. The Chair thanked Mr. Nascimento for his presentation. He noted that Leonardo’s presentation and the introduction of a discrete agenda item on outreach responded to the Public Interest Committee’s view that the IPSASB should adopt a more systematic approach to the reporting back of outreach activities. This included a revision to the template for reporting outreach activities with the addition of a column on the key messages and issues for feedback to the IPSASB. The Chair had found the encapsulation of messages from his outreach activities challenging, but encouraged those undertaking outreach activities to complete it as it would provide useful information in the standing agenda material on representation activities.

Next Steps

Mr. Rod Monette will present on Canada at the September meeting. Other members have offered to make presentations at subsequent meetings.

3. Governance (Agenda Item 3)

Consultative Advisory Group (CAG)

The IPSASB Chair welcomed the CAG Chair, Mr. Thomas Müller-Marqués Berger, to provide the IPSASB with an update on the June 26, 2017 CAG meeting. Mr. Müller-Marqués Berger thanked the IPSASB members, technical advisors and observers who attended the CAG meeting and acknowledged the CAG members in attendance for the IPSASB meeting, noting that it was very positive to see the mutual interest of both groups. Mr. Müller-Marqués Berger highlighted the following discussions from the CAG meeting:

- New Implementation Issues;
- The IPSASB’s Strategy and Work Plan 2019–2023; and

- Specific IPSASB projects.

The CAG introduced a new standing agenda item on New Implementation Issues. Ms. Delphine Moretti, from the OECD made a presentation on a recent OECD publication, *Rationalising Government Fiscal Reporting, Lessons Learned from Australia, Canada, France and the United States*. The presentation led to very thoughtful and fruitful CAG discussions.

These discussions were a starting point for the discussion about the IPSASB Strategy and Work Plan 2019–2023 that followed. This item started with a presentation by the IPSASB Chair highlighting the process for developing the strategy and work plan, some of the issues and views the IPSASB has developed so far related to the consultation document and how and when the CAG will be engaged throughout the development process.

The CAG also received an update on the IPSASB's current work plan and a report back with the IPSASB's response to issues raised by CAG members at the December 2016 CAG meeting on the Update of Financial Instruments, Public Sector Combinations, Leases and Heritage projects. Several CAG members noted that the report back documents were of a very high quality and accurately and transparently captured individual CAG member views and how the IPSASB has considered those views in the development of each project.

Mr. Müller-Marqués Berger noted that there were several fruitful discussions on specific IPSASB projects—Public Sector Measurement, Social Benefits, Public Sector Specific Financial Instruments and the Cash Basis IPSAS. The CAG Chair said that he would highlight the main views of CAG members for IPSASB's consideration during the relevant agenda items at the meeting.

The Managing Director, Professional Standards, announced that the CAG had unanimously elected Mr. Thomas Müller-Marqués Berger³ as the CAG Chair with a term until June 2020. The IPSASB Chair and members congratulated Mr. Müller-Marqués Berger.

IFAC Board

The Managing Director, Professional Standards, noted that the chairs of the independent standard-setting boards make a presentation to the IFAC Board each year. The IPSASB Chair made his annual presentation at the IFAC Board's June 2017 meeting. The IFAC Board received the presentation very positively. It was noted that the increasing adoption and implementation of IPSASs will continue to bring new challenges to the IPSASB. As the IPSASB matures the priorities will likely change to meet the needs of adopters. It was also noted that the International Accounting Education Standards Board (IAESB) consider educating accountants in the public sector to be a key priority and is likely to start a project in this area in the near future.

The Managing Director, Professional Standards, also informed members of the recent discussions on IFAC's forward budget. He indicated that, as a result of the current IFAC dues formula, the overall IFAC budget is expected to be virtually flat for the next three years. However, based on its strategic needs at an important period of growth in the adoption and implementation of IPSAS, the IPSASB is likely to receive an approximate increase of 8% in its 2018 budget. This recognizes the importance that IFAC attaches to IPSASB and IFAC's acknowledgement of IPSASB's needs, even in a period of funding challenges.

³ Thomas Müller-Marqués Berger was appointed inaugural Chair of the IPSASB CAG when it was established, to help set up and operationalize the CAG. It was agreed when he was appointed that the CAG would hold an election in accordance with the CAG Terms of Reference after the 3rd meeting, so the CAG could elect its own Chair.

4. Technical Director's Report on Work Plan (Agenda Item 4)

Review of Work Plan on Day One

The Technical Director presented the current work plan. He identified changes to the work plan and the projects where the timeline had been modified in line with decisions at the March 2017 meeting:

- (a) The Consultation Paper (CP) on **Revenue and Non-Exchange Expenses** was not approved at the March 2017 meeting. Consequently, approval of this CP had been deferred until June 2017.
- (b) The Exposure Draft (ED) on **Social Benefits** has been deferred until September 2017 to allow further consideration of the interaction with the *Non-Exchange Expenses* project.
- (c) The start of the **Infrastructure Assets** project has been deferred until September 2017, so that the project can be informed by the *Public Sector Measurement* project.
- (d) The **Emissions Trading Schemes** project has been removed from the work plan following the IPSASB's decision that the staff background paper published in December 2016 is the final output from this project.

The Technical Director identified further changes to the work plan that have been made since the March 2017 meeting:

- (a) The approval of the **Cash Basis IPSAS** final pronouncement has been deferred until September 2017 due to other pressures on the agenda at this meeting.
- (b) The detailed review of responses for the **Public Sector Specific Financial Instruments** project has been deferred until March 2018. This will release staff resources to work on the *Strategy and Work Plan Consultation* and will align the review of responses with the review of the responses to the *Update to IPSASs 28–30, Financial Instruments* Exposure Draft.

The IPSASB noted that a number of significant projects would be out for consultation at the same time, and that this could put pressure on respondents. At the same time, extending the response periods would have adverse implications for the work plan. The IPSASB agreed that it would be necessary to consider the approach to communication, and to make respondents aware of the key issues.

It was agreed that the timelines for all projects would be considered at the further review of the work plan on day four.

The CAG Chair reported on the CAG's discussion on the Technical Director's report and work plan:

- (c) The Technical Director's report was well received by CAG members. The reasons for the deferral of some projects were well understood and accepted by members.
- (d) For the first time, the work plan included indications of CAG involvement, and this was considered to be a positive development.
- (e) CAG members commented on the complexity of the **Leases** project, and expressed some concerns, based on the IASB's experience, as to whether the timetable could be achieved.
- (f) CAG members considered **Infrastructure** to be an important project for public sector reasons and recognized the links to the **Public Sector Measurement** project. However, CAG members questioned whether work on the latter project would be sufficiently developed by September, when work on the infrastructure project was due to commence.

- (g) CAG members warmly welcomed the reports that provided feedback on how the IPSASB has responded to the views of CAG members. CAG members praised the transparency of the feedback, and commented that whether the advice of CAG members had been followed was secondary to the fact that those comments had been considered and had informed the debate.

The IPSASB acknowledged the feedback from the CAG, and agreed that future IPSASB work plan reports should include an indication of when CAG involvement was expected.

Further Review of Work Plan on Day Four

The Technical Director noted that no changes to the work plan had been made during the meeting. The Technical Director reported on the consultation periods for the different projects, noting that there was some pressure on constituents. However, the IPSASB considered that with appropriate communication (both regarding the consultation periods and supplementary outreach material on the specific consultation documents) the impact on constituents could be reduced. The IPSASB requested that a summary of the consultation periods be added to the work plan.

The Technical Director noted that the out of session consultations with members and technical advisors (on **Heritage** and **Revenue and Non-Exchange Expenses**) had proved valuable, but also recognized the impact on members and technical advisors. The IPSASB Chair and Technical Director will discuss with staff what consultation would be appropriate prior to the September meeting, noting that this will be during the main summer holiday season in the Northern hemisphere.

5. Revenue and Non-Exchange Expenses (Agenda Item 5)

Staff presented a draft Consultation Paper (CP) *Accounting for Revenue and Non-exchange Expenses*, which included revisions made from IPSASB member comments prior to the meeting. The Board reviewed revisions to Chapters 1 – 3 which had been tentatively approved at the December 2016 meeting. The narrowing of the scope of Category A transactions to only include transactions without performance obligations or conditions was noted. Further a diagram was added in Chapter 3 to illustrate the ‘Categorization of Revenue Transactions’. The Board then reviewed Chapters 4 – 7 and agreed to include nine preliminary views (PVs). These PVs are as follows:

PV 1 – The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

PV 2 – Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

PV 3 – The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

PV 4 – The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSASs.

PV 5 – The IPSASB is of the view that universally accessible services and collective services impose no performance obligations on the resource recipient. These transactions should therefore be accounted for under the Extended Obligating Event Approach.

PV 6 – The IPSASB is of the view that, because there is no obligating event related to transactions for universally accessible services and collective services, resources applied for these types of transactions should be expensed as services are delivered.

PV 7 – The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or conditions they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

PV 8 – The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified and impaired.

PV 9 – The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

During this review, minor revisions were noted which were updated by staff during the meeting. A draft CP was resubmitted to the IPSASB and a page-by-page review completed. It was agreed that the Illustrative Examples would be reviewed by a drafting group after the meeting.

On this basis, the IPSASB voted on the CP's approval. The IPSASB approved the CP, *Accounting for Revenue and Non-Exchange Expenses*.¹⁷ members voted in favor. No members voted against or abstained. There was one absentee. The IPSASB agreed a consultation period expiring on December 11, 2017.

Next Steps

The Consultation Paper will be published in August 2017.

6. Public Sector Specific Financial Instruments (Agenda Item 6)

Staff presented an Issues Paper as a first high level review of responses to the Consultation Paper (CP), *Public Sector Specific Financial Instruments*.

Staff provided the background and history of the project and its link to the current project to update IPSAS 28–30.

Issue: Consider CAG Feedback Regarding the Approach to Moving the Project Forward

The responses received from constituents expressed a range of views on what the output of the project should be. As a result of the lack of consensus, this was an important issue for both the CAG and the IPSASB.

The CAG Chair highlighted the following feedback from the June 26, 2017 meeting:

- CAG members expressed views that they did not support the approach advocated by some respondents to do nothing further on the project, as the CAG felt that the IPSASB was the right body to address the accounting issues for the transactions in the scope of the CP.
- CAG members expressed views that the transactions themselves can be quite complex. However, some CAG members recommended that the IPSASB might address these transactions in a

resource efficient manner, by considering the feasibility of additional guidance to the core Financial Instruments (FI) standards, rather than by developing specific stand-alone guidance.

- CAG members expressed views that developing accounting requirements by analogy (accounting requirements consistent with similar more common financial instruments) is a practical way to address the transactions in a resource efficient manner.

The IPSASB discussed the CAG feedback and agreed the following:

- The full analysis of the responses to the CP should be considered together with the responses received to ED 62 (expected to occur in early 2018);
- It was agreed that staff should explore the options for dealing with transactions in the current financial instruments standards and provide a recommendation on the way forward (possibly to be included as either authoritative guidance or non-authoritative guidance);
- The IPSASB should provide staff with the flexibility to consider practical approaches to deal with the transactions in additional guidance in other standards, rather than seeking a perfect conceptual approach, given the very specific and complicated transactions in scope of the CP and the advice of CAG members; and
- The scope of the project should not be broadened.

Next Steps

As indicated above it is intended that a first full review of responses to the CP will be in March 2018.

7. Financial Instruments (Update to IPSASs 28–30) (Agenda Item 7)

Staff presented Exposure Draft (ED) 62, *Financial Instruments*, for approval, along with an Issues Paper highlighting items for the IPSASB to review.

The IPSASB Chair thanked CPA Canada and the Canadian Public Sector Accounting Board (PSAB) by providing Dave Warren, PSAB Principal, to support staff in the development of the ED. Further, the Chair thanked Rod Monette, Chair of the PSAB, and Stephenie Fox, Vice President Standards, CPA Canada, for their continued support.

Staff summarized the project background and the IPSASB decisions taken to date. Staff highlighted the Task Based Group's (TBG) process in reviewing the non-authoritative illustrative examples and implementation guidance, as delegated by the IPSASB at the March 2017 meeting. A three day working meeting of the TBG had been held in April 2017 in Amsterdam. Staff noted that the in-person TBG meeting was beneficial and a large volume of material was covered in a short period of time, allowing ED 62 to be approved earlier than would have been possible without such a meeting. Staff indicated that these types of in-person TBG meetings can be a useful tool. However, a great deal of advanced planning is needed to ensure they realize their potential.

The IPSASB Chair thanked the members of the TBG, and their supporting organizations, for their time and effort in attending the TBG meeting. The Chair also thanked the Royal Netherlands Institute of Chartered Accountants for providing meeting space. A member that attended the TBG meeting stressed its usefulness. The member also thanked the staff for their excellent preparation for the meeting and the quality of the papers, which ensured the available time was used productively. The member strongly endorsed this pilot approach and recommended that it be considered at strategically appropriate development points for other projects in the future. IPSASB members considered that developing non-authoritative guidance in a

face-to-face meeting was more productive than a teleconference (normal method of TBG interactions between IPSASB meetings).

Staff summarized the four step process followed to develop and review the non-authoritative material. Further, staff outlined the views of the TBG for consideration by the IPSASB.

Issue 1: TBG Review of Non-Authoritative Material: Concessionary Loans

A TBG member identified a sequencing issue when evaluating whether a concessionary loan is classified as an instrument measured at fair value or at amortized cost as follows:

- (a) In determining the classification of a financial asset, the ED requires the characteristics of the instruments' contractual cash flows to be considered. Whether a financial asset is measured at fair value or amortized cost is dependent on whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.
- (b) A TBG member noted if the classification of a concessionary loan is determined prior to the separation of the concessionary element, it is unlikely the contractual cash flows will represent payments solely for principal and interest. As a result, some may interpret the guidance to require concessionary loans to be measured at fair value.

Staff and the TBG agreed and proposed amendments to ED 62 to clarify the sequencing of decisions when determining the classification of concessionary loans. The IPSASB agreed with the staff and TBG proposals.

Issue 2: TBG Review of Non-Authoritative Material: Equity Instruments with a Non-Exchange Component

The TBG concluded that additional guidance on how to calculate the concessionary component of an equity instrument with a non-exchange component was needed, because unlike concessionary loans, equity instruments do not have contractual cash flows to estimate their fair value. Specifically, the examples highlight:

- (c) The lender must determine the concessionary component at the inception of the loan, with supporting documentation to evidence this.
- (d) The concession cannot reduce the fair value of the financial instrument. For example, if the transaction was for CU1000, and the intended concession was CU200 – if the FV of the financial instrument without the concession is CU900, then the financial instrument is not reduced to CU800.

Staff and the TBG agreed and proposed additional illustrative examples and implementation guidance to clarify this issue. The IPSASB agreed with the staff and TBG proposals subject to minor edits.

Issue 3: TBG Review of Non-Authoritative Material: Effective Interest Rate

A constituent highlighted a concern that the costs outweighed the benefits of measuring financial instruments at amortized cost using the Effective Interest Rate (EIR) method, under certain circumstances. For example, measurement using the EIR method yields similar results to the straight-line method, when an instrument has low transaction costs and is issued at close to its par value (issued with little or no premium or discount). Staff and the TBG discussed this concern and concluded that measurement outcomes may be similar between the two methods when transaction costs and any premium or discount is insignificant. However, it was concluded that measurement differences between the two methods become more significant as transaction costs and/or any premium/discount increase. Therefore, the TBG agreed that measurement at amortized cost using the EIR was appropriate and decided that ED 62 should not

modify the requirements for amortized cost using the EIR method. A Basis for Conclusion (BC) was proposed highlighting the issue as well as additional illustrative examples and implementation guidance.

The IPSASB agreed with the Staff and TBG proposals subject to minor edits.

Issue 4: TBG Review of Non-Authoritative Material: Other Issues

Staff introduced a number of other issues discussed to highlight for the IPSASB the TBG decisions and proposals in ED 62. The IPSASB agreed the following:

- Inclusion of IG B.1 for Gold Bullion even though the IPSASB continues its work on accounting for monetary gold, because gold bullion is a wider concept. The IPSASB agreed that this issue should be documented in a BC.
- Inclusion of additional guidance for accounting for prepaid forwards in IG B.9 in accordance with the Board's *Process for Reviewing and Modifying IASB Documents*.
- Inclusion of paragraph AG 117 to pick up guidance from IFRS 9 related to day one fair value differences, previously excluded from the ED.

Issue 5: Specific Request for a Comprehensive Example

It was suggested that ED 62 include a more specific and complex comprehensive example for concessionary loans provided for students to attend post-secondary education. Staff noted that the proposed examples provided for review at the in person TBG meeting in April, initially included such a comprehensive example. However, the TBG decided to remove that example for the following reasons:

- The illustrative examples and implementation guidance are meant to highlight one specific issue each. This allows the users of the standard to clearly understand how to apply a specific concept.
- All of the key elements of the comprehensive example are addressed with existing illustrative examples and implementation guidance included in ED 62. Adding a comprehensive example duplicating that guidance increases the size of an already large standard.
- The illustrative examples and implementation guidance are meant to help with the application of the principles. However, the TBG noted a risk that non-authoritative material, such as comprehensive examples or examples specific to a particular jurisdiction, may be interpreted in a rule-based manner which overrides the principle-based authoritative guidance.

The IPSASB agreed with the decision of the TBG.

Staff incorporated other suggestions provided in advance of the June 2017 meeting and highlighted them to the IPSASB. These amendments include:

- Incorporating guidance into Example 20, *Receipt of a Concessionary Loan*, indicating the substance of the loan is assessed prior to the classification of the financial instrument. This enhances consistency between both concessionary loan examples (Example 20 and Example 21).
- Clarifying IG G.2, *Concessionary Loans and SPPI Evaluation*, to make clear terms that could change the timing or amount of cash flows are considered when evaluating whether significant uncertainty exists in whether payments are solely principle and interest.
- Introducing examples into paragraph AG 63 which illustrate what types of contractual terms can create volatility in contractual cash flows.

The IPSASB agreed with the amendments.

Issue 6: Specific Matters for Comment

Staff presented the Specific Matters for Comment (SMC) included in ED 62.

The IPSASB agreed to include three SMCs on the following:

- The retention of the IPSAS 29 hedging provisions;
- A 36 month implementation period after the standard is finalized;
- Whether the proposed transitional relief consistent with IFRS 9 is sufficient.

The IPSASB agreed to the proposed BC 16 in ED 62, and include an additional BC that identifies the public sector specific illustrative examples and implementation guidance added to the non-authoritative material.

Issue 7: ED 62 Approval

The IPSASB approved ED 62. 17 members voted in favor. No members voted against or abstained. There was one absentee.

The IPSASB agreed to a four-month exposure period. ED 62 is expected to be published and issued in mid-August 2017. Therefore the comment period will end around December 31, 2017.

Issue 8: Enhanced At-a-Glance Document and Communication Strategy

Responding to CAG advice at the December 2016 CAG meeting, the IPSASB instructed staff to develop an enhanced At-a-Glance document to include a new high level introductory section on financial instruments. The intended audience is those without a strong financial instruments background.

The TBG reviewed and discussed the enhancements at the April 2017 TBG meeting, for which staff updated the document. The IPSASB discussed and provided some further comments for staff consideration in finalizing the document, as follows:

- Clearly communicate that this is an IFRS convergence project, in which the IPSASB has followed its *Process for Reviewing and Modifying IASB Documents* in developing ED 62; and
- Consider an approach to highlight to constituents where in ED 62 the IPSASB has followed IFRS 9 and where it has not. This approach is meant to clearly identify public sector departures from IFRS 9, so constituents can focus their review and comments appropriately.

Staff further highlighted that it will develop a short webinar building off the educational webinars published in late 2016 highlighting differences between IPSAS 29 and the proposals in IFRS 9. The webinar will focus on public sector specific examples to highlight the changes in the requirements related to the ED 62 proposals for classification and measurement of financial assets, and the application of the expected credit loss impairment model.

Next Steps

ED 62 will be published in August 2018.

8. Strategy and Work Plan Consultation (Agenda Item 8)

The Chair introduced the session by setting out his vision of the IPSASB in 2023. He envisaged:

- Majority of central / federal governments reporting on the accrual-basis
- IPSASB having a role as a key advocate and facilitator
- Strong global and regional coordination for the adoption of IPSAS
- Accrual information being seen as essential for strong Public Financial Management
- International organisations promoting IPSAS and providing guidance on usage of accrual information

- Ratings agencies increasingly demanding IPSAS-based information
- Complete, up-to-date and relevant suite of IPSAS
- Major public sector gaps filled
- IPSAS suite fully converged with latest relevant IFRSs
- Tools for stakeholder communication tool effective.

The Chair noted that there is a predicted trend toward increasing adoption of accrual accounting in the five-year period to 2020. While such a trend is very positive he reminded the IPSASB of the delivery challenges in the form of the range and complexity of projects and the outputs planned by the end of 2018 and beyond.

The Chair foresaw strategic challenges in the 2019-2023 period:

- The complexity of the PFM landscape
- Coordination with other stakeholders, particularly international organizations
- The relative balances between (i) addressing public sector specific issues; (ii) maintaining IFRS convergence; (iii) improving financial reporting information; and (iv) promoting the usage of accrual-based information.
- IPSASB's role in relation to adoption and implementation
- Availability of resources to meet demands.

The Chair noted IPSASB's current strategic objective and highlighted the five strategic strands or themes that had been tentatively agreed at the March 2017 meeting.

1. Setting standards on public sector specific issues
2. Maintaining IFRS convergence
3. Improving financial reporting communication
4. Promoting accrual-based information usage
5. Supporting IPSAS adoption and implementation

The Chair concluded by providing the timeline for the development of the Strategy and Work Plan and related outreach, including roundtables in 2018. Publication of a Consultation Paper is projected for early 2018 with publication of the finalised Strategy and Work Plan in early 2019.

The CAG Chair then highlighted the key points made by CAG members in four areas:

1. Public interest issues that should be considered
 - Whether those tasked with adoption/implementation really want accountability? The IPSASB should not wait for politicians to tell it what to focus on.
 - IPSASB's focus will need to change to consider emerging implementation related issues as adoption increases.
 - Public sector accounting literacy needs improvement; the IAESB's intention to focus on the public sector in 2018 was noted.
2. The five proposed strategic themes and the balance between them
 - CAG members had supported Themes 1 and 2. However, public sector specific issues should be prioritized.
 - IASB has a limited number of major projects, work on maintaining convergence should not be onerous.
 - "Promoting accruals usage" is a priority now, whereas "supporting IPSAS adoption seems to be a longer-term ambition.
3. Specific project proposals

- CAG members had not identified further projects to add to the IPSASB's list.

4. Approach to consultation and outreach

- CAG members had suggested that the IPSASB try to increase media visibility by linking its work to global social and fiscal issues, such as income inequality, levels of public sector debt and deficits, the need for improved infrastructure and environmental sustainability.
- CAG members had expressed a view that financial reporting standards can drive behaviors; a better explanation of the way new and amended IPSAS impact on society and the global economy could spur wider constituent engagement.

The Chair then outlined the approach for the break-out sessions in which the IPSASB split into four groups with each group discussing three of the five themes. The break-out sessions were confined to members, TAs, observers, CAG members and staff. Four TBG Strategy and Work Plan members acted as group leaders.

The four group leaders reported back the main points arising from group discussion, which would be taken forward into the development of a first draft of the Consultation Paper (CP).

The Chair and Technical Director then explained the agenda, format and logistical arrangements for the Public Sector Standard Setters Forum to be held in Winterthur on July 3–4, noting that the Forum would be an important input to development of the Strategy and Work Plan.

Next Steps

With the advice of the TBG and Managing Director, Professional Standards, staff and the Chair will develop a draft CP, which will be brought to the September meeting.

9. Social Benefits (Agenda Item 9)

The Chair introduced the session, noting that social benefits is one of the IPSASB's most difficult projects technically, and its most high profile project. The Chair commented that social benefits was one of the concerns raised by Eurostat in its initial report into the appropriateness of IPSAS, and that the Public Interest Committee is taking an interest in the project. Consequently, it was critical that the IPSASB is able to deliver a Standard by the end of 2018, which makes it essential that the Board is in a position to approve an Exposure Draft (ED) at its September meeting.

The Chair also commented that work on social benefits had previously been deferred to allow the Conceptual Framework to be completed. However, the Framework had not provided a conclusive answer regarding when an obligating event occurs. The Chair noted that, given the fact that two previous EDs had not been progressed due to lack of consensus, and the lack of consensus at the March 2017 meeting, it might be necessary to adopt an innovative "handling approach" to the ED, in order to ensure clarity about the differences between the potential recognition approaches, thereby helping constituents to comment.

Obligating Event Approach

Staff presented the obligating event approach, outlining the TBG view that a liability only arises when the eligibility criteria for the next benefit have been satisfied; the alternative view that for some benefits, a liability can arise when threshold eligibility criteria have been satisfied; and a third, hybrid view (which starts with the alternative view, but considers the two recognition points to be presumptions that can be rebutted in appropriate circumstances). Staff commented that given the diversity of views amongst IPSASB members,

which are likely to be reflective of stakeholders' views, it might be necessary for the ED to include one or more alternative views.

The CAG Chair provided feedback on the CAG's discussions on the obligating event approach. The CAG Chair noted that there had been lengthy discussions regarding funding and legislation. CAG members had expressed the view that if there is a valid expectation, a liability should be recognized. However, CAG members had differing views on when a valid expectation will arise.

The IPSASB discussed the obligating event approach. There was support for all three views, and no consensus emerged.

The Chair proposed that, as there was no consensus, the IPSASB should adopt a handling approach to the ED. The Chair proposed that, as all members agreed that for all social benefits the latest point at which a liability would arise was when the eligibility criteria for the next benefit have been satisfied, the ED should include this approach. As there was no consensus as to whether, for some benefits, a liability could arise earlier, when threshold eligibility criteria have been satisfied, the ED should not include the threshold eligibility criteria obligating event. The merits of including threshold eligibility criteria as a recognition point, and possibly the hybrid view, could be discussed in one or more alternative views. The IPSASB debated the merits of this proposal, and **decided** (with three members voting against and one absentee) that, as a handling approach, the ED should be based on "the eligibility criteria for the next benefit have been satisfied" as the sole recognition point.

In coming to this decision, the IPSASB noted that communicating to stakeholders the reasons for this approach, and the relationships between the social benefits project, fiscal sustainability reporting and non-exchange expenses project, would be important in assisting stakeholders to consider their responses to the ED. The IPSASB therefore **instructed** staff to reflect these issues in the Basis for Conclusions and in the communications material that will accompany the ED.

Consistency with the Non-Exchange Expenses Project

Staff presented their view that the proposed social benefits ED was consistent with the non-exchange expenses project in terms of both scope and recognition and measurement. The IPSASB concurred with this view.

The IPSASB **instructed** staff to include within the Basis for Conclusions the rationale for including universally accessible services in the non-exchange expenses project, and to explain that because social benefits arise from social risks, no performance obligations are involved. The IPSASB also **instructed** staff to ensure terminology was consistent with the Revenue and Non-Exchange Expenses Consultation Paper.

Presentation

Staff introduced the paper on presentation, noting that the IPSASB might wish to include additional disclosure requirements about future commitments following its decision not to include threshold eligibility criteria as a recognition point.

Staff noted that RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, had been developed to address some of these issues, but that applying the RPG at individual entity level raised difficulties, for example where the entity did not control the funding of the social benefits.

Disclosure

The IPSASB discussed the disclosure requirements. The IPSASB agreed that some disclosure of commitments or future cash flows would be required to meet users' needs, and **instructed** staff to develop options for the IPSASB to consider at the September meeting. These should be kept to a high level in recognition of the wide variety of social benefit schemes that exist. In this context, the IPSASB agreed that examples would be important to assist users understand the requirements, and **instructed** staff to prepare examples for inclusion in the ED.

The IPSASB debated whether to include wording regarding the level of detail to be reported, and **decided** not to include such wording.

Recommended Practice Guideline 1

The IPSASB discussed the merits of making RPG 1 mandatory. The IPSASB **decided** that this should be raised with constituents as a Specific Matter for Comment, and **instructed** staff to consider the due process implications of converting an RPG into a Standard. The Technical Director expressed a preliminary view that this would require consultation with constituents.

Review of Draft ED

Staff outlined the changes that had been made to the draft ED, and proposals for additional changes.

The IPSASB **decided** not to amend the definition of social benefits. The IPSASB **decided** not to include a definition of social benefit schemes. The IPSASB **decided** to remove the definitions of social benefits in cash; social benefits in kind; reimbursements; social insurance; social security; and social assistance as these are not used in the ED. However, the IPSASB **decided** to include guidance that explains the relationship between the scope of social benefits in Government Finance Statistics and in the ED.

The IPSASB supported staff proposals in respect of:

- Amendments to IPSAS 23;
- Changes to the scope and definitions;
- The insurance approach; and
- Deletion of the Basis for Conclusions dealing with the key participatory events and "liability accumulates over time" obligating events.

The IPSASB **decided** to include these proposals in the ED. The IPSASB **instructed** staff to work with members on the precise wording of the reference to IFRS 17, *Insurance Contracts*.

Next Steps

An ED will be brought to the September meeting.

10. Leases (Agenda Item 10)

Staff presented an issues paper with key issues on lease accounting.

Terminology: Conceptual Framework and IPSASs

The IPSASB agreed with staff's proposal to amend the IFRS 16 terms and apply the Conceptual Framework and IPSAS terminology in the Exposure Draft (ED), *Leases* as follows:

IFRS 16	IPSAS Exposure Draft
Income	Revenue
Profit	Surplus
Loss	Deficit
Business unit	Operation
Business segment	Segment

The IPSASB also agreed with staff's proposal to retain the IFRS 16 term "fair value" in the ED because:

- (a) The IPSASB has agreed to continue the use of "fair value" in recent IPSASs and ongoing projects⁴; and
- (b) There is an on-going project on Measurement that will deal with measurement bases across all Standards.

The IPSASB **instructed** staff to include a paragraph in the Basis for Conclusions to explain the IPSASB's decision to retain the term "fair value" in the ED.

Objective, Scope and Definitions

The IPSASB agreed with staff's proposal to add the references to the objectives of public sector financial reporting of accountability and decision-making in paragraph 1 of the ED because:

- (a) The IPSASB **decided** to deviate from IFRS 16 requirements on lessor accounting; and
- (b) Providing exactly the same objective as in IFRS 16 in an IPSAS on Leases that is specifically designed for the public sector with a different lessor accounting model might be misleading for users that use both IFRSs and IPSASs.

The IPSASB agreed with the scope section of the ED related to IPSASB's literature and **decided** to exclude from the scope section of the Exposure Draft the reference to scoping out leases for zero or nominal consideration for the following reasons:

- (a) Consistency with the IPSASB's proposed requirements on concessionary loans in the ED to update IPSAS 28–30 related to concessionary loans; and
- (b) The Application Guidance section of the ED and the Basis for Conclusions provides guidance on the appropriate Standard for accounting for leases for zero or nominal consideration.

The IPSASB **decided** to retain the IFRS 16 term "contract" in the definition of a lease and provide additional guidance in the Application Guidance section of the ED to explain that an entity should consider the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of the Standard on Leases. The IPSASB **decided** not to define the term "contract" for consistency with the ED to update IPSAS 28–30.

⁴ Since the Conceptual Framework was issued, the IPSASB has agreed to use the term "fair value" in IPSAS 33, *First-Time Adoption of Accrual Basis IPSASs*, IPSAS 34-38, *Interests in Other Entities*, IPSAS 39, *Employee Benefits* and IPSAS 40, *Public Sector Combinations*.

The IPSASB agreed with staff's proposal on other definitions, except the proposed amendments to the definition of "interest rate implicit in the lease" and removal of the definition of "unguaranteed residual value" to ensure a consistent assessment of the interest rate implicit in the lease.

Lessor: Recognition exemptions

The IPSASB agreed with staff's proposal to apply the recognition exemption on short-term leases for lessor accounting. The IPSASB **decided** not to apply the recognition exemption for leases of low-value assets and to include a specific matter for comment asking constituents whether they agree with such a recognition exemption for lessors.

Identifying a lease, in-substance fixed lease payments, and lessee involvement with the underlying asset before the commencement date

The IPSASB agreed with the sections of the ED on identifying a lease, in-substance fixed lease payments, and lessee involvement with the underlying asset before the commencement date.

Manufacturer or dealer lessors

The IPSASB agreed with staff's proposal to exclude the IFRS 16 requirements on manufacturer or dealer lessors from the draft ED. The IPSASB **instructed** staff to include a paragraph in the Basis for Conclusions explaining the IPSASB's reasons and a specific matter for comment.

Lessor—Separating components of a contract

The IPSASB agreed with staff's proposal to replace the reference to IFRS 15, *Revenue from Contracts with Customers*, with IPSAS 9, *Revenue from Exchange Transactions* in paragraph 18 of the draft ED.

Lessor—Lease modifications

The IPSASB agreed with the paragraphs on lease modifications for lessor accounting in the draft Exposure Draft.

Sale and leaseback transactions at below market terms

The IPSASB decided not to apply the IFRS 16 requirements on sale and leaseback transactions at below market terms. The IPSASB decided to account the subsidized component in leaseback transactions at below market terms in the same way as in concessionary leases in order to meet the public sector financial reporting objectives of accountability and decision-making.

Lessor—Credit entry

The IPSASB decided to label the credit entry in lessor accounting as "liability (unearned revenue)" because it is consistent with the credit entry in the grant of a right to the operator model in IPSAS 32, *Service Concession Arrangements: Grantor*.

Lessor—Measurement

The IPSASB agreed with staff's proposals for initial and subsequent measurement of the lease receivable and of the unearned revenue (credit entry). The IPSASB also agreed with staff's proposals for reassessment of the lease receivable.

Other Issues

The IPSASB completed a page-by-page review of the authoritative section of the draft Exposure Draft, excluding the Application Guidance section, and suggested minor editorial amendments. The IPSASB also

directed staff to reassess the paragraphs related to measurement of concessionary leases in both lessee and lessor accounting.

Next Steps

Staff will bring a complete draft Exposure Draft to the September 2017 meeting for approval including proposals for the paragraphs on measurement of concessionary leases for lessees and lessors.

11. Public Sector Measurement (Agenda Item 11)

The Public Sector Measurement project's Task Force Chair, Mr. David Watkins, and staff member, Ms. Gwenda Jensen, introduced the four issues for discussion and informed the IPSASB that there are two new Task Force members; Mr. Stuart Barr (IPSASB member) and Mr. John Vessey, who is a valuer with extensive experience in public sector valuations in New Zealand and Australia, recommended by Mr. Ken Warren, of the New Zealand Treasury and former IPSASB member.

Issue 1, Issues to Address in Public Sector Measurement Project

The IPSASB noted staff's analysis of IPSASB and technical advisors' responses to a questionnaire on project scope and priorities. The IPSASB agreed with the Task Force's view that the new issues and sub-components identified fall within the project's present scope. Staff explained that the responses on specific issues related to guidance needed and project sub-components have been logged. Progress on addressing these issues will be reviewed as the project proceeds. Another item for additional guidance was identified; more examples for sale and leaseback accounting, when transactions are at below market terms, to clarify how IPSAS deviates from the IFRS treatment. Staff will add this item to the list of guidance needed.

Staff highlighted that some respondents questioned whether IFRS convergence should be a focus for this project, while others recommended that the reduction of unnecessary differences with Government Finance Statistics (GFS) reporting guidelines should be a low priority. The IPSASB agreed with the Task Force recommendation that reduction of unnecessary differences between IPSAS and GFS reporting guidelines should be a project focus, which is consistent with the project's public sector specific (rather than IFRS convergence) nature. However, it also **directed** the Task Force and staff to consider convergence with IFRS, particularly scope to incorporate an IFRS 13, *Fair Value Measurement* approach into IPSAS. IPSASB members commented that it was important to use the same terminology as that used in IFRS, where appropriate, and to understand the relationship between the impact of valuations on the Statement of Financial Position and on the Statement of Financial Performance.

Issue 2: Timetable for Public Sector Measurement Project

The IPSASB considered a draft timetable for the project, which showed the relationship between different work streams. It did not approve the timetable, because some of the underlying assumptions need further consideration. The timetable assumed that a consultation paper (CP) on measurement will be produced, followed by an exposure draft (ED). In October the Public Interest Committee (PIC) will be discussing criteria to choose between a CP versus an ED and the basis for this decision will be documented. Although the project brief has a CP as the first step for the Public Sector Measurement project this will need to be reviewed against those criteria. Furthermore, the work streams on transaction costs and borrowing costs depend on IPSASB decisions on Issues 3 and 4 (see below).

Staff highlighted that the timetable defers work on measurement-related disclosures and implementation guidance until after the IPSASB has reached reasonably firm positions on measurement bases. This is necessary because that work is conditional on decisions about measurement. Questionnaire responses

highlighted that measurement guidance is a priority need. To fill the gap, staff plans to develop a database of already available guidance. A significant amount of useful measurement guidance has already been identified through responses to the questionnaire from several jurisdictions (Australia, New Zealand and South Africa). Work is in progress to engage a university student to develop the public sector measurement guidance database.

Issue 3: Transaction Costs

Staff introduced the topic of transaction costs, proposing that the project should address whether IPSAS are clear on:

- (a) Whether and when transaction costs impact on the monetary value assigned to an asset or liability; and
- (b) Those costs that are transaction costs.

Staff also proposed that transaction costs should be considered as part of the general issue of measurement for assets and liabilities.

The IPSASB **directed** staff and the Task Force to apply the Conceptual Framework's measurement objective to the treatment of transaction costs. Their treatment may differ depending on the applicable measurement basis. The IPSASB will reach a view which includes consideration of valuation standards, GFS reporting guidelines and the IFRS approach. The IPSASB will further consider the relationship between borrowing costs and transaction costs in that discussion.

One view was that transaction costs that relate to the acquisition of an asset generally should be capitalized. Costs include professional fees and legal services paid to those outside of the reporting entity. The treatment of transport costs needs to be considered, including whether they are capitalized in all asset acquisition cases. A consistent approach is needed in IPSAS, which takes into account valuation standards, GFS reporting guidelines and the IFRS treatment of transaction costs. There should be a clear definition. The drivers for their accounting treatment should be identified, applying valuation principles.

The IPSASB noted that borrowing costs are closely linked to transaction costs since both types of costs are incremental costs. GFS reporting guidelines distinguish between transaction costs and borrowing costs. Borrowing costs relate to financing. Transaction costs include the issue of how to address different costs depending on whether the entity is the buyer or seller.

Issue 4: Borrowing Costs

The IPSASB Chair noted that the IPSASB had already decided, in its discussion of transaction costs, that next steps for borrowing costs would be a further discussion in September, rather than development of an Exposure Draft (ED). He then asked IPSASB members for their preliminary views on the Issues Paper's four options for IPSAS 5, *Borrowing Costs*, which were:

- A. *No revision to IPSAS 5*, which requires all borrowing costs to be expensed, except for those directly attributable to acquisition, construction or production of a qualifying asset, where there is an option to capitalize borrowing costs.
- B. *IAS 23 convergence*: An amendment to require capitalization for borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset.

- C. *ED 35's approach*: An amendment to require that the capitalization option only applies to those borrowing costs that are *both* directly attributable to, *and specifically incurred for*, acquisition, construction or production of a qualifying asset.
- D. *GFS alignment*: An amendment to remove the capitalization option so that all borrowing costs are expensed, with no exceptions.

The views expressed were generally in favor of expensing borrowing costs, although conditional on further development of this issue. At this stage no support was indicated for Options B and C. Comments included that borrowing costs do not alter the value of an asset and therefore should be expensed rather than capitalized. Many public sector entities are not allowed to borrow and use funds supplied by a central agency for capital projects, which means that borrowing costs cannot be reliably attributed to assets. It can be costly to trace borrowing costs to assets, so that the costs could exceed any benefits from capitalization. Some countries have been issuing bonds with negative interest rates, which raises the question of appropriate treatment in this situation.

IPSASB members asked about the IASB's basis for removing the expense option in IAS 23, *Borrowing Costs*. Staff explained that this change aligned with the FASB's treatment of borrowing costs. A major driver may have been convergence with US GAAP. The Basis for Conclusions in IAS 23 states that borrowing costs are capitalized because they are directly attributable costs of the asset. Another principle to consider is whether capitalization supports the Conceptual Framework's measurement objective. The IASB's recent work on capital maintenance may be relevant. Pragmatism should be considered, given that most public sector entities are financed through centralized borrowing. The relevance of borrowing costs for different measurement bases should be considered.

Next steps

For September the IPSASB **instructed** staff and the Task Force to:

- Bring back the transaction costs and borrowing costs issues as part of a more general discussion of asset valuation for the IPSASB's consideration;
- Provide an education session on IFRS 13, *Fair Value Measurement*, and the IASB's post-implementation review; and
- Discuss ways to address fair value in IPSAS, with information on the Conceptual Framework's Measurement chapter to explain the relationship between the Conceptual Framework's approach to current value measurement and IFRS 13's approach.

The September Issues Paper should also describe measurement in GFS reporting guidelines and valuation guidance, including their treatments for transaction costs and borrowing costs.

The IPSASB briefly discussed the rationale for including an equivalent of IFRS 13, *Fair Value Measurement*, in the IPSAS suite of Standards, noting the:

- (a) Relevance of fair value measurement to a range of topics, including measurement of financial instruments and leases;
- (b) Benefits of applying the measurement guidance already developed by the IASB; and
- (c) Benefits of IFRS convergence, which include support for comparability and understandability of financial information and accounting standards across the private and public sectors.

This issue will be considered further in September.

Closing Remarks and Conclusion of the Public Meeting

Dr. Stapel-Weber congratulated the IPSASB on a successful meeting. The Chair acknowledged that the meeting had been difficult in places. However, the approval of the CP on *Revenue and Non-Exchange Expenses*, and the ED on *Financial Instruments*, had been substantial achievements and the IPSASB was now well positioned on *Social Benefits and Leases*. The Chair then closed the meeting.

The Technical Director and the IPSASB then met in camera and discussed matters relating to the meeting.

13. Appendix 1 – June 2017 Action List

Action Required	Person(s) Responsible	Date to be Completed
1. Communications <ul style="list-style-type: none"> • Action List posted to IPSASB Extranet • Draft minutes circulated to IPSASB for comment • Update IPSASB Summary of IASB Work Plan and Tracking Table • Update GFS Tracking Table 	Leah Weselowski Leah Weselowski Ross Smith João Fonseca	July 6 July 28 September 5 August 18
2. Technical Director’s Report on Work Plan <ul style="list-style-type: none"> • Updated Work Plan sent to Communications for posting to web site • Technical Director’s Report on Work Plan for September 2017 meeting posted to web site 	John Stanford/Paul Mason	July 14 August 18
3. Revenue and Non-Exchange Expenses <ul style="list-style-type: none"> • Publish Consultation Paper and At-a-Glance 	John Stanford/Joanna Spencer	August 11
4. Financial Instruments (Update to IPSASs 28-30) <ul style="list-style-type: none"> • Publish Consultation Paper and At-a-Glance 	Ross Smith/Dave Warren	August 16
5. Strategy and Work Plan Consultation <ul style="list-style-type: none"> • TBG Discussions • Draft Consultation Document Posted 	Ross Smith	July 17 and Mid-August September 5
6. Social Benefits <ul style="list-style-type: none"> • TBG Discussion • Issues Paper and draft ED posted 	Paul Mason	August 18 September 1
7. Leases <ul style="list-style-type: none"> • Document sent to TBG with proposals on consequential amendments to subsequent measurement at revalued amounts in IPSAS 16, IPSAS 17 and IPSAS 31 • Complete draft Exposure Draft sent to TBG for comments (except consequential amendments to subsequent measurement of fair value in IPSAS 16 and IPSAS 17 and IPSAS 31) 	João Fonseca	July 28 July 28

Action Required	Person(s) Responsible	Date to be Completed
<ul style="list-style-type: none"> • Video conference calls/ meeting with TBG members • Issues Papers and draft ED posted 		<p style="text-align: center;">August 21-29</p> <p style="text-align: center;">September 1</p>
<p>8. Public Sector Measurement</p> <ul style="list-style-type: none"> • Task Force discussion • Agenda papers posted 	Gwenda Jensen	<p style="text-align: center;">August 10</p> <p style="text-align: center;">September 1</p>

14.

Vote #1– Approve Consultation Paper, *Revenue and Non-exchange Expenses*

Vote #1– Approve Revenue
and Non-exchange Expenses
Consultation Paper

Agenda Item 5	Minutes Item 5	Date Vote Taken	June 27, 2017
Description	<i>Consultation Paper</i>	<i>Heritage</i>	Approved at meeting

Final Standard <input type="checkbox"/>	ED <input type="checkbox"/>	CP <input checked="" type="checkbox"/>	Other <input type="checkbox"/>	ABSENT	TOTAL
IPSASB MEMBER	FOR	AGAINST	ABSTAIN		
Ian Carruthers, Chair	√				
Angela Ryan, Deputy Chair				√	
Stuart Barr	√				
Mike Blake	√				
Lindy Bodewig	√				
Michel Camoin	√				
Francesco Capalbo	√				
Robert Dacey	√				
Sebastian Heintges	√				
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Chris Nyong	√				
Bernhard Schatz	√				
Adriana Tiron Tudor	√				
Marc Wermuth	√				
Juan Zhang	√				
TOTAL	17	0	0	1	18

Vote #2– Approve Exposure Draft 62, *Financial Instruments*

Vote #2– Approve Financial Instruments Exposure Draft

Agenda Item 7

Minutes Item 7

Date Vote Taken

June 28, 2017

Description

Consultation Paper

Heritage

Approved at meeting

Final Standard <input type="checkbox"/>	ED <input type="checkbox"/>	ED <input checked="" type="checkbox"/>	Other <input type="checkbox"/>	ABSENT	TOTAL
IPSASB MEMBER	FOR	AGAINST	ABSTAIN		
Ian Carruthers, Chair	√				
Angela Ryan, Deputy Chair				√	
Stuart Barr	√				
Mike Blake	√				
Lindy Bodewig	√				
Michel Camoin	√				
Francesco Capalbo	√				
Robert Dacey	√				
Sebastian Heintges	√				
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Chris Nyong	√				
Bernhard Schatz	√				
Adriana Tiron Tudor	√				
Marc Wermuth	√				
Juan Zhang	√				
TOTAL	17	0	0	1	18