Approved Minutes of the Meeting of the

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Held on September 22-25, 2015 in Toronto, Canada

1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance

	Voting Members	Technical Advisors
Present:	Andreas Bergmann (Chair)	Todd Beardsworth (Ms. Ryan)
	Jeannine Poggiolini (Deputy Chair)	Lindy Bodewig (Ms. Poggiolini)
	Stuart Barr	Takeo Fukiya (Mr. Izawa)
	Michel Camoin	Leona Melamed (Mr. Monette) (Tuesday-Thursday)
	Ian Carruthers	Fabrizio Mocavini (Mr. D'Amore)
	Robert Dacey	Renée Pichard (Mr. Barr)
	Mariano D'Amore	Rasmimi Ramli (Wan Sulaiman)
	Kenji Izawa	Riaz Rehman (Mr. Yusuf)
	Aracelly Méndez	David Watkins (Mr. Carruthers)
	Rod Monette	Marc Wermuth (Mr. Bergmann)
	Leonardo Nascimento	
	Angela Ryan	
	Adriana Tiron Tudor	
	Wan Selamah Wan Sulaiman	
	Tim Youngberry	
	Abdullah Yusuf	
Apologies:	Rachid El Bejjet	Yangchun Lu (Mr. Huang)
	Guohua Huang	Juan Moreno Real (Ms. Mendez)
		Baudouin Griton (Mr. Camoin)
		Joanna Spencer (Mr. Youngberry)[1]

	Non-Voting Observers
Present:	Sagé de Clerck (IMF)
	Jeriphanos Gutu (UN)[2]
	Delphine Moretti (IMF)
	Jani Laakso (World Bank) (Tuesday-Thursday)
	John Verrinder (Eurostat)

[1] Kris Peach attended the meeting in place of Joanna Spencer

[2] Jeriphanos Gutu attended the meeting in place of Chandramouli Ramanathan

Apologies:	Dinara Alieva (UNDP)
	Jón Blöndal (OECD)
	Chai Kim (ADB)
	Martin Koehler (European Commission)[3]
	Ian Mackintosh (IASB)
	Chandramouli Ramanathan (UN)
	Darshak Shah (UNDP)
	IPSASB Staff
Present:	Gwenda Jensen, IPSASB
	James Gunn, Managing Director, Professional Standards (Wednesday-Thursday)
	João Fonseca, IPSASB
	John Stanford, IPSASB
	Paul Mason, IPSASB
	Ross Smith, IPSASB
	Paul Sutcliffe, IPSASB (Tuesday-Wednesday)
	Wayne Travers, IFAC (Tuesday-Wednesday)

[3] Enrique Lobera Arguelles attended the meeting in place of Martin Koehler

The Chair, Andreas Bergmann, welcomed members to Toronto. He confirmed the email communication of the previous week that that Ian Carruthers had been appointed the new Chair with effect from January 1st 2016 for a three year term. The Chair also confirmed that Jeanine Poggiolini has been reappointed as Deputy Chair for 2016 and that Michel Camoin and Bob Dacey have been reappointed as members for a further term of three years commencing on January 1, 2016. The Chair congratulated Ian, Jeanine, Michel and Bob.

The Chair notified the IPSASB that that the new members for 2016-2018 are:

- Mike Blake (Australia)
- Sebastian Heintges (Germany)
- Bernard Schatz (Austria)
- Marc Wermuth (Switzerland, Public Member); and
- Juan Zhang (China).

The Chair noted that Marc has been the technical adviser to the Chair from January 1, 2015 and that Juan Zhang, from the Chinese Ministry of Finance, had spent a period of secondment as an IPSASB staff member a few years ago. The Chair congratulated the new appointees.

Members approved the minutes of the meeting from June 22-25.

John Verrinder, the Eurostat observer, provided an update on the European Public Sector Accounting Standards (EPSAS) project. Eurostat acknowledged the importance of publication of the Conceptual Framework, the development of IPSASB's governance arrangements and the publication of new IPSASs, Eurostat has adopted a new, phased approach to accounting reform in Europe. The first step is a general encouragement for member states to move to accrual-based reporting with discretion over the reporting framework to be adopted. Therefore a member state would be able to adopt IPSAS, which has happened in a number of jurisdictions. The second step will be the harmonization of accounting approaches through the adoption of EPSAS. A new EPSAS Working Group will be established at a high level, while the EPSAS Project Group will address more detailed implementation issues. The IPSASB Chair welcomed this new approach and noted that the Board will need to consider the implications for its own work.

Members noted the summary of the International Accounting Standards Board's (IASB) work plan, the IASB tracking table and the GFS tracking table.

2. Cash Basis Review (Agenda Item 2)

At this meeting the IPSASB considered the first draft of an exposure draft (ED) proposing amendments to the IPSAS, *Financial Reporting Under the Cash Basis of Accounting* (the Cash Basis IPSAS). The amendments are directed at overcoming obstacles to adoption of the Cash Basis IPSAS that arise as a result of the requirements relating to consolidation, external assistance and third party payments. The draft ED also:

- Made clear in introductory material that the role of the Cash Basis IPSAS in the IPSASB's standard-setting strategy is as an intermediate step in the transition to the accrual basis of financial reporting, rather than an end in itself; and
- Proposed limited "housekeeping" type amendments to the Cash Basis IPSAS to ensure that the requirements and encouragements in the Cash Basis IPSAS are not contrary to those of the equivalent accrual IPSASs, except where such differences are appropriate to reflect the cash basis of financial reporting.

The IPSASB confirmed the broad direction of the amendments proposed in the draft ED and identified a number of structural and other refinements to clarify the amendments proposed. The IPSASB also confirmed that consistent with the usual format of EDs proposing amendments to IPSASs, only those paragraphs or sections that are proposed for amendment should be exposed for comment in the ED. However, the Cash Basis IPSAS is a lengthy and complex document and tracking sections proposed for change and their relationship to sections that are not to be changed may be awkward. Consequently, the IPSASB agreed that a copy of the full IPSAS, "marked-up" to identify sections proposed for amendment, should be included on the IPSASB website as a resource for constituents wishing to place the proposed amendments in the context of the full IPSAS.

The IPSASB agreed that for the next meeting the draft ED should be revised to reflect the matters noted below.

Introductory material to the ED

The IPSASB agreed that the draft ED would retain the introductory material with the following amendments:

- An additional Specific Matter for Comment (SMC) is to be included to request input from constituents on the capacity of public sector entities in their jurisdiction to achieve the requirements and encouragements proposed by these amendments;
- The Executive Summary is to be restructured such that:
  - The first few paragraphs identify the matters that are dealt with in this limited scope review;
  - The third last paragraph, which explains that other improvements that the IPSASB may see as desirable may be considered in future reviews of the IPSAS and as existing accrual IPSASs are revised or as new accrual IPSASs are developed, is to be deleted. The IPSASB also directed that the IPSASB work program and, as appropriate, individual Project Briefs are to acknowledge that implications for the Cash Basis IPSAS are to be considered as existing accrual IPSASs are revised or new projects developed;
- An additional section is to be added to the introduction to the ED to explain that accrual IPSASs currently use the term "shall" rather than "should" in black letter paragraphs that identify authoritative requirements that must be complied with to achieve compliance with the IPSAS. To align with the terminology used in the latest accrual IPSASs, it is proposed that the term "shall" be used in all the "black letter" paragraphs which identify the requirements of Part 1 of the Cash Basis IPSAS – consequently "shall" is used in this ED for black letter paragraphs that identify authoritative requirements. The IPSASB also agreed that this section should explain that other terminology changes, such as the replacement of "*financial reporting entity"* with "*reporting entity"* or "*economic entity"* as used in the current accrual IPSASs would also be reflected throughout the Cash Basis IPSAS where appropriate.

Introduction to Part 1 of the IPSAS: Requirements

The IPSASB agreed that the draft ED should include the amendments proposed to the introduction with the revisions outlined below.

The initial paragraph is to explain that the black letter italicized paragraphs are authoritative standards, have been amended to use the term "shall" rather than "should" consistent with the terminology currently adopted in the accrual IPSAS and that all authoritative requirements in Part 1 of the Cash Basis IPSAS will be updated to use the term "shall".

Paragraphs dealing with the role of the Cash Basis IPSAS are to explain that:

- The IPSASB is of the view that the objectives of financial reporting can best be achieved by adoption of the accrual IPSASs; and
- The role of the encouraged disclosures in Part 2 of the IPSAS is to support an entity's transition to "the accrual basis of financial reporting" - and this phrase is to be used consistently throughout the ED.

The reference to Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*, is to be removed from the IPSAS itself and included in the Basis for Conclusions (BC).

Sections 1.1 and 1.2 of Part 1 of the IPSAS: The Scope of the Requirements and The Cash Basis

The IPSASB agreed the draft ED should include the amendments proposed to Sections 1.1 and 1.2 of the IPSAS with the following revisions:

- Paragraph 1.1.2 which outlines the characteristics of public sector entities to which the IPSAS are designed to apply is to be relocated to precede the black letter paragraph 1.1.1;
- Staff is to confirm that "the media" and "employees" are identified as potential users of general purpose financial reports (GPFRs) in the Conceptual Framework. They are to be deleted from paragraph 1.1.3 if they are not identified in the Conceptual Framework. (Staff comment: employees are not identified as users in the Conceptual Framework and will be deleted from paragraph 1.1.3); and
- References to consolidated financial statements for the budget sector and general government sector (GGS) are to be removed from paragraph 1.1.4.

The IPSASB also agreed that the text of the ED should use the same term(s) as proposed by ED 56, *The Applicability of IPSASs* as the replacement for references to government business enterprises (GBEs) in the Cash Basis IPSAS – ED 56 uses the term "commercial entity" and "commercial public sector entity" as appropriate.

Section 1.3 of Part 1 of the IPSAS: Presentation and Disclosure Requirements

The IPSASB agreed that the draft ED should include the amendments proposed to Section 1.3 of the IPSAS with the following revisions.

Definitions

Consistent with the IPSASB's decision that the draft ED is to propose that Part 1 of the IPSAS will not include any requirements relating to the preparation of consolidated financial statements (see below):

- The definition of economic entity is to be deleted from paragraph 1.3.1; and
- The explanation of the economic entity in paragraphs 1.3.2 to 1.3.5 is to be refocused on an explanation of what may be encompassed by the reporting entity and a requirement to disclose the nature or composition of the reporting entity.

Third Party Payments

The IPSASB agreed that the draft ED will propose removal from Part 1 of the *Cash Basis IPSAS* all requirements for the disclosure of third party payments. Rather, the IPSAS will include additional explanation of the arrangements that may be in place for managing the cash flows that result from the activities of individual government departments or other government entities. Consequent on this decision:

- Paragraph 1.3.6(a) (ii) and the first two sentences of paragraph 1.3.9 will be deleted; and
- Paragraph 1.3.24 will be deleted and consequential amendments made to paragraphs 1.3.25 to 1.3.29.

The IPSASB directed staff to consider whether paragraphs of Part 1 of the Cash Basis IPSAS not previously identified for amendment should now be revised for the consequences of the decision regarding third party payments made at this meeting.

The IPSASB also agreed with the inclusion in the draft ED of Part 2 of the IPSAS (at paragraphs 2.1.74 to 2.1.78) of the encouragement to disclose information about payments that have been made to settle obligations of the entity or to purchase goods and services for its benefit by parties which are not part of the economic entity to which it belongs. However, the IPSASB directed that staff consider whether, as a consequence of the revisions to the sections of Part 2 dealing with external assistance agreed by the IPSASB at this meeting (see below), this encouragement required redrafting and/or merging with the encouragements to disclose information about external assistance.

Accounting Policies and Explanatory Notes

The IPSASB directed that the constraints on information included in GPFRs as identified in the Conceptual Framework should also be identified in paragraph 1.3.32.

Sections 1.4 and 1.5 of Part 1 of the IPSAS General Considerations and Correction of Errors

The IPSASB agreed that the draft ED should include the amendments proposed to:

- Paragraphs 1.4.13, 1.4.15, 1.4.23, 1.4.25, which deal with consistency of presentation and identification of financial statements; and
- Paragraphs 1.5.2 and 1.5.3, which deal with correction of errors.

Consolidation: Section 1.6 of Part 1 of the IPSAS and Paragraphs 2.1.41 to 2.1.58 of Part 2

The IPSASB agreed that the draft ED should propose the removal from Part 1 of the Cash Basis IPSAS of all requirements for the preparation of consolidated financial statements. Rather, Part 2 of the IPSAS will encourage controlling entities to prepare consolidated financial statements that encompass all controlled entities and apply the consolidation procedures currently identified in the IPSAS.

Part 2 of the IPSAS will also encourage:

(a) A controlling entity that does not present financial statements that consolidates all its controlled entities to present financial statements that consolidate sub-groups of its controlled entities as a useful step in the transition to full consolidation; and

(b) The disclosure of information about entities or classes of entities encompassed by any such consolidated financial statements that are presented.

The IPSASB directed that, to give effect to these decisions, the draft ED will propose that paragraphs 1.6.1 to 1.6.16 be deleted from Part 1 of the Cash Basis IPSAS and revised and recast as encouragements in Part 2. Members noted that it was important that this section of Part 2 of the IPSAS include text from Part 1 which explained the reasons for preparation of consolidated financial statements together with an explanation of the objective of the section.

Section 1.7 of Part 1 of the IPSAS: Foreign Currency

The IPSASB agreed the draft ED should include the amendments proposed to Section 7 of the IPSAS.

Section 1.8 of Part 1 of the IPSAS: Effective Date of Sections 1 to 7 of Part 1 and Transitional Provisions

The IPSASB noted that when first issued in January 2003 the Cash Basis IPSAS comprised seven sections and specified the effective application date and transitional provisions of those sections. Subsequently, the IPSAS was updated with additional requirements, encouragements and initial effective dates for the presentation of budget information in 2006 and external assistance in 2007. The IPSASB agreed that:

- The effective dates of the application of the requirements of Part 1 should be drawn together in the draft ED; and
- Where amendments have been proposed by this ED to any of the requirements of the IPSAS, the draft ED should outline the proposed accounting treatment to be adopted for the change in accounting policy and specify any transitional provisions that may be applicable.

External Assistance: Section 10 of Part 1 of the IPSAS and paragraphs 2.1.79 - 2.1.99 of Part 2

The IPSASB agreed that the draft ED should propose:

- Removal from Part 1 of the *Cash Basis IPSAS* of all requirements for the disclosure of information about external assistance; and
- Inclusion of encouragements in Part 2 of the IPSAS to disclose certain (less detailed) information about such matters as the amount and form of assistance received during the reporting period, the purposes for which such assistance was provided and the amount of any undrawn assistance that is available to the entity at reporting date.

The IPSASB also agreed that the encouragements in the ED should not focus on only external assistance as defined, but encompass more generally assistance from any parties external to the reporting entity. Consequently, commentary paragraphs are to explain that assistance may be provided under the terms of a formal agreement with a multilateral or bilateral external assistance agency, from a non-governmental organization, as a donation from a public or private benefactor or as a result of some other arrangement or circumstance. The IPSASB directed that to give effect to these decisions the draft ED will propose that:

- Paragraphs 1.10. 21 and 1.10. 22 of Part 1 of the IPSAS will be recast as encouragements in Part 2 of the IPSAS;
- Paragraphs 2.1.79 and 2.1.80 of Part 2 of the IPSAS which define such matters as *external assistance*, *non-governmental organizations*, *official resources bilateral and multilateral external assistance agencies* will be deleted;
- Paragraphs 2.1.81 to 2.1.86 of Part 2 of the IPSAS will be replaced by a more generic explanation of the potential sources of assistance; and
- Paragraphs 2.1.98 and 2.1.99 which encourages disclosure of assistance from NGOs will be deleted, because it is encompassed by the more generic explanation of sources of assistance noted above.

Basis for Conclusions to Part 1 and Part 2 of the IPSAS

The IPSAS agreed that the draft ED would include the Basis for Conclusions (BC) to Part 1 and Part 2 of the IPSAS as considered at this meeting, subject to any revisions necessary to reflect the decisions of the IPSASB at this meeting.

Appendix 1 Illustration of the Requirements of Part 1

The IPSASB directed that the illustrations in Appendix 1 be revised to reflect the amendments to the draft ED agreed by the IPSASB at this meeting, and only proposed requirements identified in Part 1 of the draft ED. Those revisions are to include removal of:

- The term "consolidated financial statements" from the title of Appendix 1A and the explanation that Appendices 1A and 1B reflect whole of government and consolidated financial statements as encouraged by Part 2 of the IPSAS;
- Illustrations of any disclosures encouraged in Part 2 of the IPSAS; and
- Illustrations of payments by third parties.

Introduction to Part 2 of the IPSAS: Requirements

The IPSASB agreed that the draft ED should include the amendments proposed to the introduction, except that the reference to Study 14 should be removed from the introduction and, if appropriate included in the BC to Part 2.

The IPSASB also agreed that an introductory paragraph is to explain that the encouragements are shown in italicized text and the explanation of the encouragements in plain text.

2.1 Encouraged Additional Disclosures

The IPSASB agreed that the draft ED should include the amendments proposed to Part 2.1 of the Cash Basis IPSAS except for the following:

- A commentary paragraph is to be added to explain the reasons for not updating the definitions of the elements to reflect those in the Conceptual Framework;
- Paragraph 2.1.35 and 2.1.36 are not to identify specific IPSASs or Recommended Practice Guidelines (RPGs). Rather the text is to refer to accrual IPSASs and RPGs generally;
- Paragraphs 2.1.41 to 2.1.58 dealing with consolidation are to be updated to include additional encouragements, and related definitions, reflective of requirements which are to be removed from Part 1 of the draft ED as a result of IPSASB decisions at this meeting (see above). In addition, these paragraphs are to refer readers to IPSAS 35, *Consolidated Financial Statements,* for guidance on control of an entity, rather than to Appendix 5. (As noted below, Appendix 5 which explains the meaning of control in IPSAS 35 is to be deleted);
- Text is to be added to paragraph 2.1.60 to direct readers to the definition and explanation of control in IPSAS 35 when determining whether an arrangement satisfies the definition of joint arrangement; and
- Paragraphs 2.1.74 to 2.1.99 are to be updated to reflect the changes to third party payments noted above.

2.2 Governments and Other Public Sector Entities intending to Migrate to the Accrual Basis of Accounting.

The IPSASB agreed that the draft ED should include the amendments proposed to Part 2.2 of the Cash Basis IPSAS except for the following:

- The title of the section is to be revised to refer to entities completing the migration to the accrual basis of financial reporting. Consequential amendments are to be made to the text as appropriate;
- Paragraph 2.2.3 and 2.2.4 are to be revised as proposed by staff to better reflect the requirements of IPSAS 35 as they relate to investment entities; and
- The first sentence of paragraph 2.2.8 which refers to Appendix 6 is to be deleted.

Appendices 2 to 6

The IPSASB agreed:

- Appendix 2, *Illustration of Certain Disclosures Encouraged in Part 2 of the Standard* is to be retained and updated to reflect changes to encouraged disclosures agreed at this meeting;
- Appendix 3, *Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2 'Cash Flow Statements*' is to be retained and, if necessary, updated to ensure it is reflective of the current version of IPSAS 2 "*Cash Flow Statements";*
- Appendix 4, *Qualitative Characteristics of Information Included in General Purpose Financial Reports* is to be retained and amended as proposed;
- Appendix 5, *Establishing Control of Another Entity for Financial Reporting Purposes* is to be deleted; and
- Appendix 6 *Accrual IPSASs and Recommended Practice Guidelines on Issue* is to be deleted.

Next Meeting

The IPSASB agreed that, if possible, the draft ED should be updated as directed at this meeting and presented for its approval to issue at the December 2015 meeting.

3. Public Sector Financial Instruments (Agenda Item 3)

Monetary Gold – Definitions

The IPSASB discussed the proposed modifications to the definition of “tangible gold” and the additional description noting that financial instruments which can result in the physical delivery of gold are considered in the scope of guidance. The IPSASB agreed with the proposed changes.

Monetary Gold – Preliminary View

In June 2015, the IPSASB directed staff to develop and include specific matters for comment (SMCs) as the chapters are developed.

Staff presented SMCs and a preliminary view (PV) for the chapter. The IPSASB considered whether a PV could be developed for all definitions in the CP. However, the IPSASB agreed that PVs for definitions should be developed for each chapter, given that all chapters are stand-alone with separate issues and considerations.

The IPSASB discussed the SMCs developed for the chapter. The IPSASB agreed to include a single SMC, asking constituents if the IPSASB should prescribe an accounting requirement for measurement at current value or historical cost and to include a further sub-option asking if preparers should be allowed to select a measurement basis (current value or historical cost) based on their intention in holding the gold assets. The IPSASB directed staff to consider emphasizing users’ requirements when developing the wording related to the SMCs.

Currency in Circulation – Definition

The IPSASB raised concerns over the revised “Domestic Currency in Circulation” definition. In particular, the IPSASB directed that the term “domestic” should be removed from the definition because it may create confusion in those jurisdictions using a foreign currency, such as the US dollar (USD, as a domestic currency and legal tender. However, the liabilities related to the foreign currency used as legal tender, are recognized by the foreign monetary authority which issues them, rather than the domestic monetary authority. Therefore in the case when a non-US jurisdiction adopts the USD as legal tender, the liabilities for the USD are recognized by the US monetary authority.

The IPSASB considered the different types of currency arrangements which exist as follows:

- Currency issued by a monetary authority for its economy;
- Currency issued by a monetary authority for a currency union; and
- Currency issued by a monetary authority for a foreign economy which has been adopted without formal agreement.

The IPSASB directed that each of the different types of currency arrangements be identified and explained in the chapter.

Currency in Circulation – Notes

The IPSASB considered the options presented in the draft chapter on Currency in Circulation. The IPSASB agreed that, as presented, the options focused too much on the current practices of preparers and that more consideration of other options which reflect users’ perspectives is necessary.

The IPSASB provided a specific direction to revise the discussion of the legal liability approach to consider guidance in the Conceptual Framework in regards to legally binding and non-legally binding obligations. Further, the IPSASB directed that greater consideration of alternative accounting treatments should be included in the CP. Currently the CP focuses on the current practices of preparers. It should be developed to consider different options for dealing with the credit entry in the financial statements when currency is issued into circulation. This development should consider guidance in the Conceptual Framework.

Currency in Circulation – Coins

Similar to the discussion on notes, the IPSASB directed that the options for accounting for coins in the CP, should reflect the perspective of all users and not focus on current practice in accounting for coins by preparers only. Further the IPSASB questioned if there is a conceptual difference between notes and coins and asked staff to consider the issue further.

Currency in Circulation – Examples

The IPSASB discussed including generic examples and directed that the revised chapter should include examples for each option, as this would be helpful for constituents to understand the differences between each option.

4. Impairment of Revalued Assets (Agenda Item 4)

The IPSASB considered proposals to bring property, plant, and equipment and intangible assets on the revaluation model within the scope of the IPSASB's two standards on impairment—IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*. These changes seek to provide users with relevant information on impairment losses to property, plant, and equipment and intangible assets on the revaluation model and to clarify that impairment losses to individual assets within a class of property, plant, and equipment in IPSAS 17, *Property, Plant, and Equipment*, do not necessitate a revaluation of the entire class to which that impaired asset belongs.

Staff informed members that, although the purpose of the proposed amendments, was largely to respond to the views of some preparers they had received some feedback prior to the meeting that the proposed changes were disproportionate and that clarification that an impairment loss does not necessitate a broader revaluation could be effected through amendments to IPSAS 17 and IPSAS 31, *Intangible Assets* without modifying the scope of IPSAS 21 and IPSAS 26

A number of members supported the staff proposal. The reasons for support were principally that some jurisdictions with accounting policies to measure property, plant and equipment at current values subsequent to initial recognition had not favoured the scope exemption and that the proposed change would narrow differences with International Financial Reporting Standards (IFRS).

The IPSASB also considered the alternative view that the rationale for the current scope exclusions in IPSAS 21 and IPSAS 26 is robust. According to this view the ambiguity over the relationship between impairments of individual assets and revaluations could be addressed through a clarification in IPSAS 17, *Property, Plant, and Equipment.* Such a clarification would state that, for assets on the revaluation model, the assessment that carrying amount does not differ materiality from that which would be determined using fair value at the reporting date precedes impairment testing and that, unless other assets in the class have similar indications of potential impairment, there is no need for a revaluation of the entire class. It was also suggested that IPSASB's thinking on the nature of revaluations is not up-to-date; the assessment whether carrying amount does not differ materiality from fair value can be made through a desk exercise rather than a full valuation by appraisal.

On balance, the IPSASB considered that the objectives of financial reporting are best served by bringing property, plant, and equipment and intangible assets on the revaluation model within the scope of IPSAS 21 and IPSAS 26. The IPSASB then reviewed draft Exposure Draft (ED) 57, *Impairment of Revalued*

Assets, to achieve this objective. The IPSASB directed that transitional provisions should be inserted in IPSAS 21 and IPSAS 26, so that a change of accounting policy resulting from the change would be prospective. Subject to this, modifications to the Basis for Conclusions to reflect the discussion at the meeting, and other minor changes the IPSASB approved ED 57. ED 57 will be issued in mid-October 2015 and will be open for public comment until mid-January 2016.

The IPSASB approved ED 57 with 16 members in favour and two absentees.

5. Improvements (Agenda Item 5)

The IPSASB discussed issues highlighted by staff and considered Exposure Draft 58, *Improvements to IPSASs 2015* (ED 58), for approval.

ED 58 includes the following types of improvements:

- Part I: Consequential Amendments Arising from Chapters 1-4 of the Conceptual Framework;
- Part II: General Improvements to IPSAS;
- Part III: IPSAS/GFS Alignment; and
- Part IV: IASB Improvements.

Part I: Consequential Amendments Arising from Chapters 1-4 of the Conceptual Framework

The IPSASB considered an Issues Paper dealing with the following areas and staff's proposed amendments in Part I of ED 58, *Improvements to IPSASs*:

- The deletion of Appendix A, *Qualitative Characteristics of Financial Reporting,* from IPSAS 1, *Presentation of Financial Statements,* a summary of that appendix in IPSAS 18, *Segment Reporting,* and amending references to the qualitative characteristics (QCs) and constraints on information elsewhere in the literature to reflect the Conceptual Framework;
- In light of the decision at the June meeting to retain the words "reliably" and "reliable" in recognition criteria as an interim measure, the wording of a footnote explaining the meaning of "reliable" in all IPSASs with recognition criteria and more general guidance on measurement and the explanation in the Basis for Conclusions of IPSAS 1;
- Amending requirements and guidance relating to the selection and application of accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, where there is no IPSAS dealing with a transaction, other event or condition, to reflect the QCs and constraints in the Conceptual Framework and the establishment of the Conceptual Framework in the IPSASB's literature; and
- The direction to change the reference to "management" in paragraphs 12, 14 and 15 of IPSAS 3 to "preparers".

Members agreed the staff proposals and proposed amendments in relation to qualitative characteristics, constraints and the selection of accounting policies, subject to minor drafting changes. Members also agreed the approach to insertion of the footnote explaining "reliable" and the wording of that footnote.

Staff indicated that, following a review of the IPSASB literature they had reservations about amending references to "management" to "preparers", noting that the word "management" is used widely in the IPSASB literature. In many instances such references are in the context of the operational control of an entity's activities. However, the word "management" occurs in a number of IPSAS in the context of the determination of accounting policies, estimation techniques and allocation approaches for the measurement of assets and liabilities and such a change might be more extensive than originally foreseen. In addition use of management emphasizes accountability for financial reporting in a way that preparers does not. Members decided not to change references to management" to "preparers".

Members directed that an effective date paragraph should be added to IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Presentation,* because, although the proposed changes were not to the main body of the standards they were to authoritative Application Guidance.

Part II: General Improvements to IPSASs

The following issues raised by stakeholders were considered in developing part II of the draft ED:

- Amendments relating to the presentation of revenue and gains in IPSAS 1, *Presentation of Financial Statements*;
- Removal of references to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and international or national standards dealing with non-current assets held for sale and discontinued operations;
- Amendments to the revaluation model in IPSAS 17, *Property, Plant and Equipment*, to require valuations to be carried out on an asset basis rather than a class of asset basis;
- Amendments to IPSAS 20, *Related Party Disclosures*, relating to remuneration for the purposes of key management personnel remuneration disclosures;
- Amendments to IPSAS 20, *Related Party Disclosures*, to include additional application guidance on how to determine the full-time equivalent for governing body members included as key management personnel;
- Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to provide greater application guidance on impairment of non-cash-generating software;
- Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, to clarify when a transaction is exchange or non-exchange;
- Amendments to IPSAS 31, *Intangible Assets*; to provide greater application guidance on the capitalization of software development costs;
- Amendments to IPSAS 32, *Service Concession Arrangements*, and IPSAS 17, *Property, Plant and Equipment*, to align the requirements regarding the classification of assets;
- Amendments to IPSAS 32, *Service Concession Arrangements*, to clarify whether a finance expense should be recognized during the construction period by the grantor where it has a policy of expensing borrowing costs; and
- Amendments to IPSAS 32, *Service Concession Arrangements*, to clarify whether costs the operator incurs in getting ready to operate a service concession asset should be expensed as incurred (if known) or spread over the service concession period.

The IPSASB accepted staff's recommendations regarding the amendments to be included in the ED.

Part II of the draft ED includes proposed amendments to:

- Remove references to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and international or national standards dealing with non-current assets held for sale and discontinued operations (amendments to IPSAS 14, *Events after the Reporting Date*; IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*; IPSAS 26, *Impairment of Cash-Generating Assets*; *IPSAS 27, Agriculture*; and IPSAS 31, Intangible Assets were included in the draft ED); and

- IPSAS 32, *Service Concession Arrangements*, and IPSAS 17, *Property, Plant and Equipment*, to align the requirements regarding the classification of assets.

The IPSASB supported the proposed amendments, subject to some editorial amendments.

Part III: IPSAS/GFS Alignment

The following amendments were considered in developing part III the draft ED:

- Replace the term “ammunition” in IPSAS 12, *Inventories* with Government Finance Statistics term “military inventories” and include a description; and,
- Replace the term “specialist military equipment” in IPSAS 17, *Property, Plant and Equipment* with Government Finance Statistics term “weapons systems” and include a description.

The IPSASB agreed with the proposed amendments with some editorial changes to clarify the applicability of these standards to military assets.

Part IV: IASB Improvements

The following IASB amendments were considered in developing part IV the draft ED:

- Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012 by the IASB);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41 issued in June 2014 by the IASB); and
- Disclosure Initiative (Amendments to IAS 1).

Part IV of the draft ED includes the proposed amendments to IPSAS 17, and IPSAS 27, *Agriculture* derived from the IASB narrow scope amendment *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41 issued in June 2014 by the IASB). The IPSASB agreed with the proposed amendments included in Part IV of the draft ED.

Approval of ED 58, Improvements to IPSASs 2015 and Exposure Period

The IPSASB completed a page-by-page review of the draft ED. Subject to amendments agreed during the session, the IPSASB approved ED 58 with 16 members in favour and two absentees. The IPSASB agreed that the ED would be issued in mid-October, with a comment deadline of January 15, 2016.

6. Public Sector Combinations (Agenda Item 6)

Staff presented an Issues Paper on the classification of public sector combinations. The Issues Paper also discussed sections of a draft Exposure Draft (ED) on public sector combinations.

At its June 2015 meeting, the IPSASB agreed that combinations in which no existing entity gained control of operations should be classified as amalgamations; where an existing entity did gain control of operations, further consideration of additional factors was required. The Issues Paper, and the related discussions, considered how the interactions of the additional factors identified at the June 2015 meeting should be described in the draft ED.

Factors

At its June 2015 meeting, the IPSASB agreed that, where an existing entity gained control of operations, two factors, consideration and decision making, also needed to be considered in determining the classification of a public sector combination. The IPSASB noted that guidance on when control is gained will be required in the ED, and that this will be an important issue for preparers. The IPSASB confirmed that the factors should be considered on a principles rather than a rules basis.

At the June 2015 meeting, the IPSASB had identified consideration as a factor, and had discussed this factor in terms of whether consideration was present and if so, whether it was significant. In the Issues Paper, staff had developed indicators based on this discussion, but had also identified an alternative set of indicators which considered the reasons why consideration was given.

The IPSASB agreed that the reasons why consideration was given would be helpful in classifying public sector combinations. The IPSASB noted that taking the reasons into account resolved some of the difficulties that the IPSASB had identified in its June 2015 meeting, for example the situation where a payment was made to an entity to compensate it for the costs it incurred in effecting a combination rather than to compensate it for giving up its rights in the operations.

Approaches

At its June 2015 meeting, the IPSASB had directed staff to consider how the factors should interact. The Issues Paper outlined two approaches:

- **Rebuttable presumption approach.** Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the factors is focused on whether there is sufficient evidence to rebut the presumption.
- **Individual weighting approach.** Under this approach, the weighting given to the gaining of control, consideration and decision making is a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors would determine the classification.

Staff noted the different ways in which the two approaches would address the public interest.

Members noted that the rebuttable presumption approach provides greater clarity, whereas the individual weighting approach is likely to be more subjective in practice. The rebuttable presumption approach was seen as reducing the margin for professional judgment. Control was seen by most members as the primary factor in determining the classification, and the rebuttable presumption approach reflects this.

Other members considered that in practice, classification decisions are not straightforward and that the individual weighting approach enables practitioners to better reflect the economic substance of the combination. Members also considered this approach better reflects the IPSASB's discussions at the June 2015 meeting. These members acknowledged that the individual weighting approach could lead to greater inconsistency.

The IPSASB noted that definitions of acquisitions and amalgamations are possible under the rebuttable presumption approach, whereas under the individual weighting approach, the draft ED would only include descriptions of the transactions.

Members questioned how the rebuttable presumption approach would address the situation where neither the consideration nor the decision-making indicators are sufficient to rebut the presumption that the combination is an acquisition, but this does not reflect the economic substance of the combination. Staff noted that this could be addressed through the requirement that the accounting arising from the classification provide information that is useful for decision-making purposes and accountability purposes.

The IPSASB agreed that this would be helpful, but considered that the qualitative characteristics (QCs) should also be taken into account. The IPSASB agreed that this could be achieved through consideration of the economic substance of the combination (included in the individual weighting approach). This would also enable preparers to consider whether the classification produced relevant and faithfully representative information about an entity's financial performance.

On balance, the IPSASB agreed to include the rebuttable presumption approach (referring to the reasons why consideration was or was not given, and amended to take the QCs into account) in the draft ED.

The IPSASB considered that, as well as being the preferred option of most members, this approach was preferable from a due process point of view; including the rebuttable presumption approach in the ED would allow respondents to comment on its suitability. The IPSASB agreed that both options should be discussed in the Basis for Conclusions, which would set out the reasons for the IPSASB's approach. A Specific Matter for Comment in the consultation would allow respondents to indicate the approach they considered most appropriate.

The IPSASB also noted that the discussion regarding the factors to be taken into account at the June 2015 meeting should be included in the Basis for Conclusions and raised as a Specific Matter for Comment.

The IPSASB expressed a view that it is important that the Application Guidance and Illustrative Examples to be included in the draft ED provide sufficient guidance for preparers. These will be considered at the December 2015 meeting.

Draft ED

The IPSASB considered the coverage of the Application Guidance, Implementation Guidance and Illustrative Examples included in the draft ED.

The IPSASB agreed the following points:

- Application Guidance and Illustrative Example(s) should be included for reverse acquisitions;
- Additional guidance and examples on reacquired rights to licenses should be considered for acquisitions;
- The IPSASB supported the inclusion of guidance and examples on tax forgiveness, and directed staff to consider whether similar guidance and examples should be provided for other transactions (for example, loans made between an acquirer and an acquired operation);
- The IPSASB noted that some defense ministries might acquire operations to prevent others having access to intangible assets controlled by those operations, and directed that guidance and examples on this should be included in the draft ED;
- Additional guidance and examples should be included on licenses granted to one entity which subsequently amalgamated with the grantor;
- Additional guidance and examples should be included on transfers between parties to an amalgamation; and transfers involving a third party that may be affected by an amalgamation;

- Guidance and examples on accounting for an amalgamation occurring part way through a reporting period should be included; and
- Guidance and examples on the carrying amounts to be used should be included (as the carrying amount for assets and liabilities may differ between a controlled entity and a controlling entity.

IPSASB members undertook to provide staff with additional information on the guidance and examples to be included, particularly in relation to amalgamations.

7.1 Non-Exchange Expenses & Revenue Joint session (Agenda Item 7.1)

The Chair introduced the session by welcoming David Bean, Director of Research and Technical Activities of the Governmental Accounting Standards Board (GASB), Todd Beardsworth, Director of Accounting Standards of the New Zealand External Reporting Board, and Amy Shreck, Practice Fellow of the GASB.

The project staff began the session by stating that at the June meeting, the IPSASB requested the project teams to work together to identify where the projects intersect and if symmetry of accounting would occur.

The project staff presented two diagrams that illustrated the potential intersection of the projects. The first illustrated that the general intersection of the projects occurs with non-exchange transactions between public sector entities. These transactions may or may not have performance obligations. The second diagram showed possible links between the revenue and expense of the various levels of public sector entities, beginning with a central government. The project staff noted that many transactions have similar characteristics, so trying to limit the analysis to transactions between public sector entities does not appear to be in accordance with the principle that transactions with similar characteristics should be accounted for in a similar manner.

Matter for Consideration 1 – Agreement of intersection of revenue project and non-exchange expenses projects as shown in diagrams presented

The IPSASB was asked to provide feedback on the diagrams and the usefulness of the diagrams in future papers.

An observer suggested that several items could be added to or clarified in diagram 1. The observer asked for clarification as to whether the diagram was intended to apply to public corporations or market related entities that are required to apply IFRS. The observer suggested that because exchange revenue is shown that exchange expenses should also be included. Exchange transactions may occur between public sector entities and also would be an intersection. The observer also suggested that revenue from social contributions be reflected in the diagram to offset social benefit expenses. The Chair suggested that the consideration should be given to including social contributions to social benefit programs in the revenue project, similar to the way taxes from individuals are included in non-exchange revenues.

The Revenue project staff clarified that it was not intended to bring government business enterprises (GBE's) within the scope of IPSASs. The Non-Exchange Expense project staff noted that the IPSASB may consider keeping an open mind regarding GBEs and subsidies given the ongoing GBE project. The project staff also noted that the project teams are still working on the scope of the Non-Exchange Expense project in relation to the Social Benefits project.

A member suggested that licenses may be obtained by one level of government from another level for the vehicles owned by the government, as well in other areas. The member questioned whether such transactions are exchange or non-exchange or if there is a performance obligation for the issuance of licenses. The member suggested that there may be an overlap here between the projects that should be considered.

The Chair asked that exchange expenses be considered for inclusion in the diagram. The Chair noted that there is no current project on exchange expenses, but there is guidance in other standards related to certain exchange expenses. The Chair also noted that if the Revenue project comes to the conclusion that distinguishing exchange from non-exchange transactions is not feasible, then consideration of exchange expenses may not be necessary.

A member suggested that staff should consider current guidance provided in IPSASB's literature on exchange expenses. The review of this guidance should consider how the literature would be affected if the distinction between non-exchange and exchange transactions were to change.

Another member suggested that diagram 2 could be expanded to include international organizations.

Matters for Consideration 2 and 3 – Examples

David provided a brief introduction to the examples included in Appendix A of the paper, which are intended to be used in both projects to illustrate the potential opportunities for symmetrical accounting. The IPSASB was asked to provide feedback on the examples and to provide any additional examples for consideration.

Members and observers provided feedback regarding the types of transactions or variations of transactions that should be considered, including:

- Capital grants
- Advance payments made on arrangements with performance obligations
- Examples of transactions that focus on assets/liabilities recognition (currently focus on revenues/expenses)
- Clarifying the difference between a performance obligation and a "success" obligation in research grant examples
- Pass-through grants or funding
- Multi-year funding arrangements
- Revenue appropriations
- Funding for shared management subject to audit after several years
- Guarantees without revenue
- Guarantees of services, payments, or other actions of governments without revenue

A member noted that in their jurisdiction there has been discussion about when an appropriation creates a right. The member noted that several views exist.

Matter for Consideration 4 – Definition of Performance Obligation

The IPSASB next discussed a proposal to examine the potential definition of a performance obligation in the public sector at the next meeting. The IPSASB discussed the challenges associated with enforceability in the public sector, as well as the specificity of performance obligations. The Chair suggested that transactions occurring in industries that have participants in both the public and private sectors be evaluated to determine the effects of the definition of a performance obligation in both settings.

Matters for Consideration 5 and 6 – Additional Factors

The IPSASB discussed the project staff's proposal that additional factors often present in non-exchange transactions may affect the recognition of a non-exchange transaction. In addition to the factors presented by project staff, the IPSASB was asked to consider any additional factors that should be considered.

A member stated that the key areas appear to have been identified, but was also interested in how communication of intent by a government impacts citizen decisions. Project staff noted that the form of communication may impact the obligating event. IPSASB staff noted that Chapter 5 of the Conceptual Framework discusses non-legally binding obligations that would be relevant to such an analysis.

Another member noted that impairment issues should be considered.

A member indicated that the environment in which governments operate is different from the private sector. That member asserted that the private sector is driven by legal enforceability, while the public sector is driven by accountability.

A member noted that solutions to these questions are often highly jurisdictional and that collecting too many examples will not be helpful to the IPSASB or stakeholders. The member suggested that the examples be used to consider what is appropriate and why.

A member noted in their jurisdiction revenue recognition is a significant issue and legislation has been passed to specify how transfers should be accounted for.

7.2 Non-Exchange Expenses (Agenda Item 7.2)

The session continued with a presentation of an Issues Paper by the Non-Exchange Expense project staff.

The project staff presented a slightly revised diagram from the first, joint session to further indicate the limitations on the Non-Exchange Expenses project. Project staff asked the IPSASB to consider if the Non-Exchange Expenses project should continue to be discussed with the Social Benefits and Revenue projects or, if the decisions made in those projects should drive the Non-Exchange Expenses project. The project staff expressed a view that once the types of transactions covered in the Social Benefits and Revenue projects were removed from the consideration of the Non-Exchange Expenses project, very few types of transactions would be left for evaluation.

The Chair and Acting Technical Director did not agree that the number of transactions and events was small, in particular because the scope of the Social Benefits project had been narrowed and transactions and events that had previously been within the scope of the analysis of social benefits would be addressed in the Non-Exchange Expenses project. The Chair was of the view that the Non-Exchange Expenses project should collaborate with both the Revenue and Social Benefits projects.

IPSASB staff noted that the response to the Consultation Paper on Social Benefits will indicate whether constituents agree with the narrower definition. The analysis of responses will be presented to the IPSASB in March and June 2016. IPSASB Staff asked if the non-exchange expenses team felt constricted by the approach to recognition used in the social benefits project (obligating events and insurance).

The project staff clarified that the team wanted to evaluate the substance of the transactions. If the substance is similar, the accounting should be similar as well.

The Chair noted that, with the exception of the social contract approach, the approaches considered in the Social Benefits project are consistent with the Conceptual Framework. The risk is that there is another approach to be considered in this project that was not considered in the Social Benefits project, and might also be considered appropriate for social benefits.

The Chair also noted that the IPSASB will seek to ensure a consistent approach. The Chair indicated that any differences are unlikely to be dramatic. IPSASB staff noted that some of the concerns could be addressed by the scheduling of agenda sessions at future meetings.

The project staff then introduced the other main issues related to the overall approach of the project. The project staff asked the IPSASB to consider if the project should (i) continue to use the exchange/non-exchange approach to classifying transactions, (ii) use the distinction between transactions that have performance obligations and those that do not, or (iii) explore both approaches. Project staff also asked the IPSASB for guidance on how to pursue these approaches and to identify other approaches for consideration.

The Chair expressed a view that the accounting treatment should be driven by user needs as identified in the Conceptual Framework. The distinction between exchange and non-exchange transactions is likely to be more relevant to the Revenue project, but should be considered in this project as well. The Chair also considered that the performance obligation approach is also relevant.

The project staff then discussed the consideration of certain characteristics of transactions as possible ways to further clarify and operationalize the definition of non-exchange, if the definition is to be retained. The IPSASB was asked to consider if the characteristics presented should be considered and whether others should be added.

The Chair summarized that, at this stage, the IPSASB was generally supportive of the items on the list, but that there may be others to add in the light of future discussions.

A member asked the project team to clarify if these characteristics were used as criteria to distinguish exchange and non-exchange transactions or if the characteristics were being used to sub-divide the transactions. This member also noted that analysis of the value exchanged would not be a consideration if the exchange/non-exchange split were removed and the performance obligation approach was used instead.

Project staff noted that the characteristics were initially considered as a way to distinguish the transactions as exchange or non-exchange, but they may have broader implications. Some could apply no matter which approach was used, but the value of an exchange may be less important if the Board moves away from the exchange/non-exchange distinction.

A member noted that the characteristics noted may be labeled as items to deal with in considering the transactions, whether in this project or in another. The performance obligation issue may be dealt with in other projects, while stipulations and degree of control may be dealt with here. Eligibility may be dealt with adequately in social benefits.

Another member shared the concern over the value exchanged and the difficulty in determining value in applying the non-exchange transaction definition. This member noted that the use of the non-exchange term does a disservice to governments by implying that governments give resources away without consideration of what is done with those resources. Just because the value arising is hard to measure does not mean it does not exist.

Project staff noted that the benefit may not be retained by the public sector entity; the citizens may be better off, but the citizens are not part of the economic entity.

Project staff presented a final item exploring the boundaries of this project and the Social Benefits project. Amy indicated that the project team was seeking confirmation that the IPSASB's current definition of social benefits is intended to align with the definition in Government Finance Statistics (GFS). Amy indicated she discussed the GFS definition with an International Monetary Fund (IMF) representative to confirm her understanding of the intent of GFS. The discussion is relevant as this project may have similar types of transactions as those in social benefits, and the project team sought confirmation that the full range of transactions is covered by both projects.

David noted that in previous discussions, several types of transactions and schemes were discussed and questioned whether or not they meet the definition of social benefits.

An observer noted that this project also needs to consider taxes and fines incurred by lower level governments and property taxes payable from central governments to local governments.

The Chair noted those transactions also are within the Revenue project. There is little guidance in the IPSASB literature at present. A particular issue is when a transaction meets the recognition criteria for revenue and expense. The IPSASB directed that the issue of recognition of particular transactions should be discussed with the Social Benefits project staff.

A member asked where foreign aid would be considered. The Chair noted that foreign aid is basically a transfer.

An observer noted that the cost of assuming debt or making payments related to another party's debt should be considered in this project. The Chair agreed and added that fiscal equalization systems should be considered as well.

A member stated that fines and taxes should be considered, while noting those transactions may be covered under IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets,* The member also mentioned the link to the statutory payables project and expressed a view that it might be possible to combine statutory payments with non-exchange transactions as there is no specific guidance now.

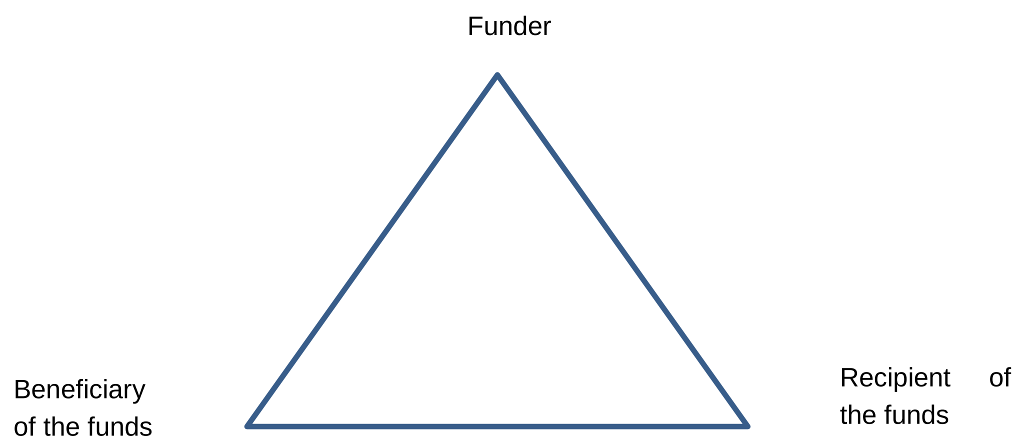
Project staff confirmed that the project team intends to evaluate aspects of IPSAS 19, and how to address non-exchange transactions generally rather than just expense transactions. David indicated that this would be the first time that the Board has evaluated IPSAS 19 following completion of the Conceptual Framework.

A member asked if the IPSASB had made a decision whether statutory payments should be addressed in this project instead of the Public Sector Financial Instruments project. The Technical Director said that the IPSASB had decided at the March 2015 meeting that the initial recognition and measurement of statutory receivables and payables should be addressed in the Revenue and Non-Exchange Expense projects, but that subsequent measurement should remain within the scope of the Public Sector Financial Instruments project. The member noted that it might be worth considering which transactions should be covered. The analysis did not need to be detailed at this point. The Board could then decide where to include the evaluation. The Chair agreed it would be good to see the benefits and disadvantages of including or not including particular transactions in this project.

8. Revenue (Agenda Item 8)

Todd Beardsworth from the New Zealand External Reporting Board presented an Issues Paper. Todd was supported by Aimy Luu Huynh, staff of the New Zealand External Reporting Board, who was present at the meeting.

The IPSASB agreed that a performance obligation approach should be explored, using the definition in IFRS 15, *Revenue from Contracts with Customers,* as the starting point with appropriate modifications for the public sector. In the public sector, the person receiving the benefit is not always the same as the person receiving the funds. There is often a three way relationship between funder, recipient of the funds and the beneficiary of the funds.



The IPSASB agreed that the performance obligation approach and IPSAS 23, *Revenue from Non-Exchange Transactions (Transfers and Taxes),* approach should be applied to examples of transactions, so that each approach could be compared and contrasted. The focus needs to be on the substance of the transactions, the practical challenges and the extent of judgement involved. The resulting analysis should include the benefits of each approach and whether the outcomes under each approach are appropriate.

The IPSASB agreed that services in-kind should be re-examined taking into account the IPSASB's Conceptual Framework. There may be circumstances where services in-kind should be recognised, such as where there is control of those services and they can be measured reliably. An alternative to recognition in the financial statements is disclosure, or reporting services in-kind as part of service performance.

The IPSASB agreed that capital grants should be re-examined under the performance obligation approach. This includes considering presentation and disclosure to help address some of the issues. It is about how best to tell the performance story of the entity receiving the capital grant. The IPSASB only wanted "other resources" and "other obligations" to be considered as a last resort.

The IPSASB discussed tax revenue issues and agreed they should be considered in the revenue project. This included whether or not to define tax. The IPSASB also noted that recognition and measurement of tax revenue is an issue. The taxable event is often considered to be the point at which tax revenue should be recognised. However, the submission of a tax return and tax assessment often occurs the year following the taxable event. Therefore to recognise tax revenue when the taxable event occurs, requires an estimation, which can have a high error margin. Further, there is an issue around whether to initially recognise tax revenue at face value or fair value.

The IPSASB noted that the right to use an asset without being charged to use it is a common issue for international organizations.

The revenue project overlaps with the non-exchange expenses project and interacts with existing IPSASB literature. The IPSASB will need to decide which project will deal with certain transactions, such as transfers and statutory receivables.

The IPSASB received an update on the outreach to date for the revenue and non-exchange expenses projects. The outreach included preparers and users of public sector accrual financial statements. The main purpose of the outreach is to identify issues that should be considered in the respective projects and to seek feedback on users information needs.

The IPSASB noted that further work would need to be carried out on the alignment of revenue with Government Finance Statistics.

The Chair thanked staff on the revenue project and non-exchange expenses project for the progress made to date.

9. Governance (Agenda Item 9)

Andreas Bergmann, James Gunn and John Stanford provided an update on their attendance at the meeting of the Public Interest Committee in Washington DC on September 17th, which they characterized as open and constructive. The IPSASB had been represented by Andreas Bergman, James Gunn and John Stanford. Fayez Choudhury, Russell Guthrie and Gary Pflugrath had attended on behalf of IFAC.

Andreas had provided to the PIC the Chair's Activity Report on IPSASB activities in the first two quarters of 2015, noting that such a report would be provided to the PIC on a quarterly basis going forward,. Andreas had emphasized the role of the Conceptual Framework in IPSASB projects, and the completion and publication of the Consultation Paper on Social Benefits. He had also provided an update on the EPSAS-related activities. The PIC was satisfied with both the content and format of the Activity Report

Andreas noted that the PIC had expressed concerns that in the IPSASB work plan projects take several years and that the format of the plan does not currently extend far enough to cover this. Andreas and John had noted that the seemingly long development phase for certain projects is largely attributable to due process and the fact that more complex projects include a consultation paper phase. Such a phase is necessary in order to provide constituents with detail on viable accounting options. The PIC asked IPSASB to consider whether, in a number of projects, there is a need for a CP or whether it might be feasible to go straight to an ED. The IPSASB representatives suggested that by-passing the CP stage might risk proposals being put forward in EDs that did not receive support from constituents or constituents raising options that had not been previously identified by the IPSASB.

The PIC had also commented that there are a large number of projects on the work plan and suggested that it might be possible to finalize certain projects more quickly if the number were reduced and staff focused on fewer projects. The IPSASB representatives noted that project development is not only limited by staff resources, but also by the Board time available for deliberations. A narrower focus of staff resources would not, of itself, lead to projects being completed more quickly. Nonetheless, it was noted that IPSASB leadership would consider opportunities to move projects forwards as expeditiously as possible.

The PIC had expressed a strong view that the IPSASB should add a project on natural resources to its work plan. The PIC also considered that the reduction of differences with GFS is more importance than maintaining alignment with IFRS. John had responded that jurisdictions varied in their views on the importance of these two areas. A number of jurisdictions emphasize the importance of maintaining alignment with IFRS, particularly from a consolidation perspective.

The PIC had also expressed some concerns over the perceived lack of buffer resources to respond to unexpected issues. Andreas and John acknowledged that resources were constrained, but noted that IPSASB had been able to respond to the Greek debt issue earlier in the year by issuing a Staff Q & A document and a podcast

James Gunn noted that the PIC see a role in making a statement on due process when a new IPSAS is approved. The PIC had still to determine how such a statement would be framed. In terms of its review of due process, it was noted that the PIC had indicated that it would adopt a risk-based approach. While accepting that greater attention in the review of due process could be placed on more sensitive or complex topics, the IPSASB representatives noted the view that any process should be applied to all IPSASs. The PIC had also supported the current high threshold for re-exposure proposed pronouncements.

The arrangements for establishing the Consultative Advisory Group (CAG) had been discussed, in particular the selection of the initial Chair and membership. James Gunn had agreed to develop revised proposals for the PIC to consider.

The IFAC representatives had highlighted the main aspects of the IFAC nominating process. The PIC commented on the robustness of the nominating process and the 2017 Call for Nominations. While the PIC wanted to see a modified gender and regional balance on the IPSASB, the PIC acknowledged the challenge of identifying appropriate individuals with the necessary technical and language skills. The PIC acknowledged that individually and organizationally the PIC could play a role in identifying possible candidates, especially those from non-Anglophone environments.

The IPSASB representatives commented that, overall the meeting had been very constructive and that the PIC had encouraged innovation and creativity in the IPSASB's approach.

Delphine Moretti gave the perspective of the PIC Secretariat. The Chair noted that Delphine would shortly be moving to the OECD from the IMF and congratulated Delphine on her new appointment. Delphine informed the IPSASB that the OECD would host the PIC website, which would include the PIC's Terms of Reference, minutes of PIC meetings and other due process documents. Delphine said that, overall, the PIC was content with the progress on governance. Delphine noted that:

- From a work plan perspective it is important that gaps in the literature are closed, so that financial statements can reflect social benefits and natural resources;
- The CAG would be helpful in drawing IPSASB attention to misunderstandings in the application of standards; and
- The PIC wanted to see a more diverse membership of the IPSASB.

Members then raised questions and made comments on certain of the areas discussed;

- Noting that the PIC's role was to consider the due process rather than to suggest that new projects should be included in the work plan
- The possibility of introducing a research agenda might be considered raised
- The PIC should be made aware of the Government Finance Statistics (GFS) Policy document that governs the approach to GFS requirements in projects and seeks to narrow or eliminate differences with GFS where appropriate.

The incoming Chair commented that, as an IPSASB member in his sixth year, it was extremely encouraging to hear reflections on a very positive meeting and, especially hearing from the PIC Secretariat. He expressed a view that this was a positive development in the IPSASB's development.

10. Public Sector Standard Setters Forum (Agenda Item 10)

David Bean, Director of Technical Activities and Research at the United States Governmental Accounting Standards Board (GASB) and John Stanford updated the IPSASB on arrangements for the Public Sector Standard Setters Forum on March 14 and 15 2016 in Norwalk, Connecticut.

It was noted that an email had been sent to members in early August asking for details of organizations in their jurisdictions or elsewhere that met the criteria for an invitation-standard setters with a public sector remit and ministries of finance setting accounting requirements for one or more tiers of government. Members had also been asked to provide suggestions for the agenda. Members who had not yet responded were asked to send these details to Leah Weselowski and John Stanford.

The event will have a technical focus on the accrual basis of accounting. It is not intended to discuss IPSASB governance or approaches to the implementation of accrual accounting. It is tentatively planned to structure the Forum in three sections:

- Issues with Existing IPSASs
- Current IPSASB Projects
- Emerging Issues not Covered in Current Literature

Suggestions for agenda topics had been made as follows:

Issues with Existing IPSASs

- Consolidation and Reporting entity
  - Control v economic dependence
  - Government departments as reporting entities
  - Mixed groups (entities reporting on different standards)
- Service Concession Arrangements
  - Grant of right to operator model
- Recognition and Measurement of Goods and Services in-kind

Current IPSASB Projects

- Social Benefits
- Non-Exchange Expenses
- Revenue
- Heritage Assets
- Emissions Trading Schemes
- Public Sector Combinations
- Infrastructure Assets
- Public Sector Measurement

Emerging Issues Not Covered in Current Literature

- Natural resources/Sovereign rights

- Disclosure overload
- Operating and funding models
- Performance measures

A number of members favored break-out sessions. A limited number of break out rooms would be available. Although the event is not aimed at the cash basis of accounting some members considered that the Forum might have a break-out session on the Cash Basis IPSAS.

Members directed that the agenda should not be finalized until early 2016 in order to ensure that it reflected up-to-date issues and to ensure that the views of participants are taken into account.

GASB were arranging for a limited number of rooms to be available for delegates and had very generously agreed to subsidize the event and the cost participants. There would be a reception at the GASB offices on Monday, March 14, followed by dinner at the Dolce Center**.**

The Chair gave his thanks and those of the IPSASB to David Vaudt, the GASB Chair, and David Bean for their very generous financial and organizational support.

11. Emissions Trading Schemes (Agenda Item 11)

The International Public Sector Accounting Standards (IPSASB) considered three issues for development of the Emissions Trading Schemes (ETSs) Consultation Paper (CP).

Issue 1, IASB Collaboration and IPSASB Project Timetable

First the IPSASB noted recent developments with respect to the International Accounting Standards Board's (IASB's) project, *Pollutant Pricing Mechanisms (*formerly *Emissions Trading Schemes)*. This is a collaborative project with the IASB, which means that staff from each board (the IPSASB and IASB) share information on project developments and discuss these together where appropriate. The IPSASB's project timetable allows for consideration of IASB developments, with the result that the timing of the IPSASB CP depends, in part, on the timing of IASB decisions. The IASB Discussion Paper is now scheduled for approval in 2016. The IPSASB noted that the IPSASB CP will follow the same timeline.

IASB staff have been developing a further accounting approach, which treats emission allowances (EAs) granted to ETS participants as loans from the ETS administrator. The IPSASB emphasized the desirability of developing a coherent accounting approach that reflects the economic substance of transactions from both the ETS administrator's and participants' perspectives. The draft description of an ETS's public policy objectives, in Appendix C of agenda paper 11.1, is useful for understanding the economic impact from both perspectives and could be a basis for discussions at future IPSASB–IASB liaison meetings. The IPSASB noted that staff had circulated an earlier draft of the agenda paper 11.1 and IASB staff had noted, inter alia, the paper's description of ETS public policy objectives.

Issue 2, Description of Public Policy Objectives

The IPSASB then reviewed the draft description of ETS public policy objectives and identified revisions. With respect to the first part of the description, the IPSASB directed staff to reorder them so that they started with public policy objectives and then described the government's choices for policy intervention. The first section should include:

(a) A diagram showing a continuum of policy interventions moving from "command and control" (non-market) to ETS (market); and

(b) A discussion of the economic impacts (for participants) that are likely to arise from the different interventions, e.g. a command and control intervention could result in the impairment of emitting entities' operational assets or business closures.

The description of different interventions should also discuss different ways that an administrator releases EAs, for example, through transfer for free or at a transfer fee, sale or some other method.

For the second part of the description, focused on ETS costs, the IPSASB directed staff to:

(a) Focus on the different ways that governments achieve the public policy objectives (as opposed to different "views" about costs), which then have different costs.

(b) Link policy interventions to their economic impact(s) for participants, the economic or other significance of EAs, and then consider the consequences of this for EA accounting treatment(s).

(c) Extend Table 2 in the description to include EAs received (free or for a charge) from the perspective of both the administrator and ETS participants.

The IPSASB noted that ETSs evolve over time as governments change their policy and react to new pressures or circumstances. Accounting treatments should be able to cope with such change. The CP should not focus on just one set of circumstances or one type of ETS. In addition to the different ways in which EAs are issued, the description should also consider:

(a) The value of EAs to the administrator, where this could be related to either cash flow (ability to sell or transfer for a charge) or public policy benefits;

(b) Whether EAs can be carried forward to future compliance periods;

(c) Other factors affecting ETS variability with implications for economic substance and accounting treatment;

(d) The administrator's ability to influence EA market value through its control over supply;

(e) Differences in EA price between the primary and secondary markets for EAs;

(f) Governments' choices for different ways to incentivize ETS participants to reduce emissions; and

(g) The role of EAs, including their role as compensation, as performance obligations, as tax expenditures (when EAs are provided for free they allow entities to avoid taxes which they would otherwise pay), as a type of financial paper or future which can be traded, and as indicators of emissions limits.

In conclusion, the IPSASB emphasized that ETS administrators' public policy objectives are important context for alternative accounting treatments and important for understanding the economic impact of an ETS. The paper should link the alternative accounting approaches to ETS public policy objectives. Some approaches appear to work better with particular public policy aims. More information on different ETSs, including different ways in which EAs arise, and the influence of public policy aims for variations between ETSs should be provided. For example, the Australian example illustrates a government that issues EAs to entities with the expectation of something received (reductions in emissions) in return.

The IPSASB directed that the description be developed into a background paper, available to inform both IPSASB and IASB discussions.

Issue 3, Alternative Accounting Approaches

The third issue that the IPSASB discussed was that of alternative accounting approaches for ETS administrators. Five approaches were discussed:

Approach 1, *Emission Notes*

Approach 2, *Emission Licenses*

Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*

Approach 4, *Emission Limits (Taxes and Contingencies)*

Approach 5, *Emission Contracts*

Staff explained that three approaches—Approach 1, Approach 2 and Approach 4—are, in essence, the same as the three approaches that the IPSASB considered at its June 2015 meeting. For Approach 1 and Approach 2 only their names have changed. Approach 3 has been slightly revised to include disclosure of contingencies, although its proposed recognition of elements, which is restricted to revenue from cash received by the administrator, has not changed. The name change had been confusing for some members, while others considered that the new names were improvements, because they better conveyed what was involved with each accounting treatment.

The IPSASB directed staff to retain the new names, but to include the old names in brackets, because they also provided useful information as well as continuity from the IPSASB's June discussion of alternative accounting approaches.

The IPSASB noted that Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*, has been developed by applying symmetry to the recognition pattern in two accounting approaches discussed by the IASB in June 2015. Since June IASB staff have begun development of another approach, named Approach 6, *Emission Loans*, in the IPSASB's agenda paper 11.1. That new approach will be discussed by the IASB at its October meeting. Depending on the outcome of that discussion, the IPSASB could have further approaches to discuss in December, including one applying symmetry to the IASB's "Emission Loans" approach.

Approach 1, *Emission Notes (Financial Liability)*

Staff introduced Approach 1, *Emission Notes (Financial Liability),* which has the ETS administrator recognizing a liability when EAs are transferred to participants. The EAs are conceived as similar to currency, so issuance of EAs is similar to issuing emission allowance "notes" which, at the end of the compliance period, will be accepted by the administrator as payment for participants' emission obligations. The administrator has an obligation to accept the EAs back, which is similar to a government's obligation to accept currency.

At the end of the period the administrator's liability is extinguished when participants use EAs to meet their obligations to submit EAs. At the same time the administrator's right to receive EAs (a right that arises during the period as participants emit pollutants) is extinguished. The administrator's statement of financial position ends with no residual balances and nothing to write off.

The IPSASB's discussion of this approach identified the following points:

(a) This approach can be applied both to situations where EAs are transferred at zero cost and to situations where they are transferred for a fee or auctioned. The analogy with currency is better supported when the administrator receives funds on transfer because governments always receive value back when they issue currency.

(b) The classification of resulting revenue is an issue. Staff should review the GFS reporting guidelines treatment for such revenue, and consider factors affecting its value and timing.

(c) There were different views on whether EAs could be liabilities for the administrator or whether they represent something else. Do EAs involve an obligation for administrators to an outflow of resources or service potential? When participants return EAs does this represent a positive to the administrator, because participants are complying with ETS requirements and this represents "less bad" i.e. a good result?

(d) EAs do not necessarily become worthless at the end of a compliance period. EU governments have allowed entities to apply EAs to a subsequent compliance period, despite the EAs originally applying only to one compliance period. This impacts on the on–going worth of EAs and their possible value to the administrator when they are returned at the end of the compliance period. The question arose of whether EAs for one period are identified, for example with numbers, so that those particular EAs are cancelled or whether they are able to be reissued, which suggests that they remain a resource to the administrator.

(e) A distinguishing difference between EAs and currency is that, whereas a government chooses how much currency to issue and is relatively free to adjust supply, the nature of an ETS is to set an upper limit on emissions and the number of EAs issued must be equal to or less than that upper limit. Staff notes that EAs are also time–bound although, as noted under point (d), the government can choose to extend the compliance period to which an EA applies.

Approach 2, *Emission Licenses (Intangible Asset)*

Staff introduced Approach 2, *Emission Licenses (Intangible Asset)*, which treats EAs as a type of intangible asset, similar to a license that confers a right to do things, in this case the right to emit pollutants. By contrast to Approach 1, under Approach 2 the administrator does not recognize a liability when EAs are issued. Instead the EAs account is extinguished, with only cash from transfer/sale recognized. During the period the administrator recognizes revenue and an asset reflecting rights to receive EAs. At the end of the period, when EAs are received back, the administrator's right to receive EAs is extinguished while the administrator ends up with the EAs back on its statement of financial position. Assuming that the EAs are cancelled at this point, the EA assets received back would need to be impaired down to zero when they are cancelled.

The IPSASB's discussion of this approach identified the following points:

(a) What happens to EAs when returned to the ETS administrator and their significance should be considered from the perspective of economic theory and public policy objectives.

(b) The New Zealand Government considered both Approach 1 and Approach 2 when developing its accounting for the administrator's ETS involvement and preferred Approach 1. New Zealand had a country obligation for the first Kyoto commitment period. The New Zealand ETS aimed to distribute that country (national level) obligation to other entities, i.e. to ETS participants and, indirectly, the customers that purchase their products. The New Zealand Government ended the period with surplus Kyoto Units, which it could then sell. The New Zealand Government is both an ETS participant (in the Kyoto scheme) and an ETS administrator (of the New Zealand ETS). The Kyoto ETS is administered by the United Nations (UN) and the responsible agency is the UN Framework Convention on Climate Change (UNFCCC)).

(c) Both NZ Units (EA) and Kyoto Units are accepted by the New Zealand (NZ) Government to cover participants' emissions, so Kyoto Units work like foreign currency. It was noted that this point is of general relevance for ETSs, because the same ETS may be run out of several different countries. The EAs are a common instrument and can be surrendered anywhere.

(d) Kyoto Units are traded between national governments. A government that has excess Kyoto Units is able to sell those to another government that has a deficit of Kyoto Units, because it has exceeded the limit covered by the Kyoto Units that it holds.

Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*

Staff introduced Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*, which is an approach based on the IASB's participant accounting, where participants initially recognize a "government grant" *liability*, at the same time as they receive EAs for free. Applying symmetry to generate an administrator's accounting approach, the result is that the administrator recognizes an equivalent *asset*, which is named a "government grant asset".

The IPSASB's discussion of Approach 3 highlighted the following points:

(a) The IASB is considering whether ETS participants have a performance obligation when they receive EAs, with the result that revenue recognition should be deferred.

(b) The government grant asset could be classified as an "other resource", applying the concept identified in Chapter 5 of the Conceptual Framework, where items that are not elements may nonetheless need to be recognized in order to provide useful information.

(c) Accounting for ETS involvement overlaps with the IPSASB's projects on non–exchange revenue and non–exchange expenses. A government grant of EAs can be treated as a non–exchange expense from the administrator's perspective and non–exchange revenue for the ETS participant. If there is a performance obligation for the participant, then revenue will only be recognized as the participant discharges its performance obligation and "earns" the EAs.

(d) In Australia the government operates a scheme whereby entities are paid for projects to reduce their emissions and if the service is not provided then the "prepayment" is returned.

(e) The buyers of EAs are focused on having sufficient to cover their production of emissions while the administrator's aims are quite different, so symmetry between the two perspectives appears doubtful.

Approach 4, *Emission Limits (Taxes and Contingencies)* and Approach 5, *Executory Contract*

Staff introduced Approach 4, *Emission Limits (Taxes and Contingencies, previously Approach 3, Revenue)* noting that it does not treat EAs as assets and instead focuses narrowly on revenue from cash received when the ETS administrator transfers (or sells) EAs at the beginning of the period. Approach 4 recognizes revenue at the end of the period on the basis that this reflects the taxable event. Prior to this a prepayment of tax is recognized. Contingencies are disclosed by the participant. Contingences indicate the likelihood of a participant's need to purchase more EAs (due to emissions more likely to exceed EAs held at end of period) or ability to sell EAs (due to emissions likely to be less than EAS held at the end of the period). For the administrator, disclosed contingencies could be symmetrical with those of the participants. However it could also be the case that the administrator not disclose contingencies. ETSs are designed to put pressure on participants to reduce emissions, which means that participants as a whole could be in an excess emissions positions, which would result in a contingent asset for the administrator. However, entities generally are less ready to disclose contingent assets and symmetry is less of an issue for disclosures.

The IPSASB's discussion of Approach 4 identified the following points:

(a) This approach could be a sub-variant of one of the other approaches, depending on when revenue is recognized and this possibility should be explored.

(b) This approach has similar issues to those raised by Approach 5, *Emission Contracts*, for example timing of revenue.

(c) Approach 4 is a net approach rather than a gross approach, as evident from the focus on the excess (deficit) of EAs over emissions to determine the disclosed contingency.

(d) For the IPSASB the administrator's accounting should be the focus and should come first in each discussion.

Staff then introduced Approach 5, *Emission Contracts*, which attempts to apply an executory contracts approach to ETS accounting. Staff noted that ETS accounting does not share the type of liability recognition issues that arise with respect to accounting for governments' social benefits. The IPSASB linked Approach 5 to Approach 4. The two approaches should be compared and contrasted to determine whether they really represent two distinctly different approaches or are, in effect, two ways of describing the same recognition pattern.

The IPSASB indicated that further development of the alternatives (descriptions and discussion) should:

(a) Include journal entries, as provided in the power point presentation for the meeting.

(b) Discuss what type of asset (if any) is created by the ETS administrator when it creates EAs. EAs appear intangible in nature. The costs of creating EAs should be considered and evaluated within the context of intangible asset recognition. The benefits of EAs to the administrator should be described, including considerations of symmetry where these arise. Revenue from issuing EAs could be treated as tax revenue by the ETS administrator while participants view their acquisition of EAs differently. They may treat EAs as a tradable item.

With respect to the second point, the IPSASB noted that the OECD–Eurostat Task Force on accounting for ETS involvement addressed this mismatch (between the administrator's and participants' perspectives) by splitting the issuance of EAs into two parts; the tax revenue and another asset (the EAs). The EAs are disclosed in GFS supplementary schedules as they are held by ETS participants or traded.

Next steps

Next steps are for staff to develop, with Task Based Group (TBG) input, a further issues paper for the December 2015 meeting. In December the IPSASB will further discuss alternative accounting treatments for ETS involvement and also consider whether there is a preferred accounting approach. Staff will also revise the description of public policy objectives and develop it into a background paper as directed.

12. Employee Benefits (Agenda Item 12)

The IPSASB discussed key issues in the revision of IPSAS 25, Employee Benefits. The IPSASB considered both the maintenance of convergence with the underlying International Accounting Standard (IAS) 19, Employee Benefits, and the narrowing of differences with Government Finance Statistics Manual 2014 (GFSM 2014).

Maintaining convergence with IAS 19

The IPSASB agreed with staff recommendations to converge with IAS 19 in the following areas:

- Immediate recognition of defined benefit cost by eliminating the "corridor" option in IPSAS 25;

- Excluding changes in the defined benefit obligation that result from changes in demographic assumptions from the service cost component;
- Remeasurements will comprise (i) actuarial gains and losses on the defined benefit obligation, (ii) return on plan assets, excluding amounts included in net interest on the defined benefit liability (asset) and, (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the defined liability (asset);
- Maintaining the recognition of the service cost component in surplus or deficit;
- Recognizing the interest cost in the finance costs item in the statement of financial performance instead of surplus or deficit;
- Recognizing remeasurements in net assets/equity instead of in surplus or deficit;
- Recognizing immediately the unvested past service cost, with consequential amendments to the definitions of curtailments, service cost and settlement, instead of current recognition as an expense on a straight-line basis over the average period until the benefits become vested;
- Recognizing termination benefits when the entity has *communicated* its plan of termination to each of the affected employees, instead of the current requirement when the entity is *demonstrably committed* to provide those benefits;
- Changing the definition of short-term employee benefits (other than termination benefits) to refer to employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the *annual reporting period* in which the employees render the related service, rather than those expected to be settled within twelve months after the end of the period in which the employees render the related service;
- Including a new section in IPSAS 25 called *Actuarial assumptions: mortality* with wording making explicit that the mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment;
- Clarifying that taxes related to service and administration costs related to benefit payments are included in the estimate of present value of the defined benefit obligation and that other taxes and administration costs related to the management of plan assets are deducted from the return on plan assets;
- Clarifying that contributions from employees or third parties reduce the ultimate cost to the entity of those benefits;
- Clarifying that linked service contributions from employees or third parties reduce service cost (if they are linked to service) or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service);
- Including requirements on conditional indexation that the measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria;
- Clarifying that the measurement of an entity's defined benefit obligations reflects the limits on the legal and constructive obligation to pay additional contributions.

Some IPSASB members observed that experience shows that the corridor option does not improve management, acknowledged that in some jurisdictions it was never used and undermines the understandability of financial statements and accountability of management. An IPSASB member stated that the new requirements on the immediate recognition of the defined benefit cost are easier to apply and increased the level of comparability between entities.

Staff highlighted that, by eliminating the corridor option, IPSASs will be aligned with Government Finance Statistics reporting guidelines (GFS). The same will happen with the recognition of remeasurements in net assets because in this way it will not affect surplus or deficit in IPSAS, which is equivalent to not affecting net lending/net borrowing in GFS. Staff noted that in GFS, the remeasurements are recognized in the Statement of Other Economic Flows which affects net worth without affecting net lending/net borrowing.

The IPSASB directed staff to include an explanation in the Basis for Conclusions of how the elimination of the corridor option enhances the understandability of financial statements and accountability of management.

Net Interest Approach

The IPSASB did not decide whether to adopt the net interest approach in the revised IAS 19. The IPSASB directed staff to bring a proposal to the IPSASB December 2015 meeting for bridging the difference between IPSASs and GFS reporting guidelines.

Disclosures

The IPSASB decided to include the disclosures objective and the disclosures of IAS 19 in the revised version of IPSAS 25. However, the IPSASB decided that the disclosures in IPSAS 25 should also consider GFS reporting guidelines, in particular the inclusion of a supplementary table in the System of National Accounts 2008.

Shared risk plans

The IPSASB acknowledged that the amendments made on risk sharing in this revision of IPSAS 25 does not address in full the issues that shared risk plans raise. However, as IPSAS 25 is a converged standard with IAS 19 and this is a limited-scope project, the IPSASB decided not undertake a more comprehensive revision of IPSAS 25, but rather to wait for a future revision of IAS 19 on this subject.

Composite social security programs

Staff sought views from IPSASB on how to improve the usefulness on a public sector specific section on composite social security programs.

An IPSASB member was of the view that the IPSASB should leave the section as it is and wait for the development of the Social Benefits project. Another IPSASB member suggested to have a specific matter for consideration on the subject to receive feed-back from constituents. The IPSASB acknowledged that there is difficulties in defining a clear criterion to distinguish employment related benefits from social benefits because this could be very jurisdiction specific. An observer from the statistical community suggested to “unpick” the several parts of composite social security schemes into employment related benefits and non-employment related benefits although the frontier between both types might not always be clear.

The IPSASB decided that the Exposure Draft (ED) should have a specific matter for comment on the existing requirements and guidance on composite social security programs in order to ascertain whether these requirements and guidance are useful.

Future Directions

As the Employee Benefits project is a limited-scope project to converge with IAS 19, the IPSASB decided not to address the issue of constructive obligation versus legal obligation in this project. The IPSASB directed staff to develop a draft ED for the December 2015 meeting.

13. Heritage Assets (Agenda Item 13)

The IPSASB discussed four issues:

(a) A proposed description of heritage items;

(b) The project's focus on particular categories of heritage items;

(c) Whether heritage items can be assets; and,

(d) A proposed definition of a "heritage asset".

With respect to the first issue, the IPSASB considered the different types of heritage items that are identified in the international conventions developed by the United Nations Educational, Scientific and Cultural Organization (UNESCO). These conventions for the protection of heritage cover items ranging from "cultural property" such as historic buildings and paintings to "intangible heritage" such as traditional dances, songs and craft knowledge. The IPSASB also noted the 2004–2005 research by the United Kingdom's Accounting Standards Board, which worked with the IPSASB to develop a consultation paper on heritage assets. The 2006 consultation paper included a comprehensive list of heritage asset definitions used by different national accounting standard setters.

The IPSASB indicated support for staff's proposed description of "heritage items". The description was revised to read:

> "Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held for the benefit of present and future generations and preserved indefinitely. They are preserved for many different reasons including, and not limited to, their architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance."

The IPSASB noted that the special nature of heritage items includes that the aim is to preserve or conserve them indefinitely for future generations. However, they are not necessarily *held* indefinitely by one entity. Heritage items may be transferred between entities. Museums may sell individual items in order to acquire other items that enhance their collection. The word "preserve" is better than "protect" because it conveys a wider set of activities, which include, for example, activities to repair against the depredations of time and natural decay rather than being restricted to protection again external attacks.

The IPSASB directed staff to take a wide, inclusive approach initially to consider different types of heritage items. The wide group can be discussed and narrowed down subsequently to focus in on items for which financial reporting could be appropriate. The project will need to discuss issues such as whether different types of heritage items could be assets and how to distinguish between ordinary items and heritage items. Are heritage items controlled by an entity? Do they have service potential and/or are they resources? The possibility that such items could meet the Conceptual Framework definition of a liability should be considered. Heritage items involve on-going costs to preserve them. Their special character focuses on an obligation to preserve rather than the services that they provide. The measurement of heritage items will also need to be considered, since this is relevant to the recognition of such items.

With respect to Issue 2 the IPSASB rejected staff's proposal that the project focus on heritage items that broadly fit into three existing accounting categories—property, plant and equipment (tangible physical assets), intangible assets and biological assets or natural resources—and begin by focusing on tangible physical assets. This idea was rejected on the basis that this approach takes too narrow an accounting standards perspective. The first step is to consider heritage items from a Conceptual Framework perspective, applying the definitions of assets, liabilities and other resources/obligations and the recognition criteria.

The IPSASB considered the wide range of heritage items identified under issue 1, which range from historic buildings and artwork to conservation lands and even living people who have special skills of particular value to their community. Initial comments included that people are not included in financial statements as assets for the purpose of financial reporting. Biological assets such as plants and animals will not live forever. Similarly intangible items such as copyright over a book or film will have a finite life. This suggests that such items cannot be heritage items, where the aim is to preserve them indefinitely for future generations. Those factors relevant to the analysis of different types of heritage items should be identified. The IPSASB directed staff to look at specific examples of heritage items.

For Issue 3 the IPSASB considered whether heritage items could be assets or whether, instead, their fundamental characteristics are such that they cannot meet the Conceptual Framework's definition of an asset. The Conceptual Framework definition states that assets are resources controlled by the entity as a result of a past event. The IPSASB noted arguments for and against heritage items being assets for financial reporting purposes. Arguments raised in support of the view that heritage items can be assets included that:

(a) Heritage items can be resources for the entity, because they provide service potential and, in some cases, also generate economic benefits.

(b) An entity can control a heritage item, because there is scope to restrict public access to heritage items, either temporarily or on a regular basis, and guardianship of such items is likely to involve scope to restrict access.

Arguments opposing the view that heritage items are assets include that:

(a) Heritage items are not resources for an entity, because they belong to the community and do not generate net cash flows. Services provided are for the public rather than the reporting entity that holds the items. The definition of a liability may apply, given the costs involved in preserving a heritage item and an entity's obligation to incur those costs on behalf of the community.

(b) An entity cannot control heritage items, because it often will not be allowed to sell such items and is obliged to provide public access to them. An entity does not have normal public use rights for heritage items.

The IPSASB noted that the Conceptual Framework refers to assets of a heritage nature and states that public sector assets may provide services to third parties (not to the reporting entity) and may have restrictions in terms of use.

The IPSASB directed staff to apply the asset definition to different types of heritage items, including consideration of borderline cases. The question of whether heritage items could either (a) meet the definition of a liability, or (b) involve a related liability (a maintenance liability) to preserve the item, should also be considered. The description of a heritage item identifies the need to preserve, which suggests an obligation. What is the service potential of a heritage item? The discussion should compare and contrast heritage items with public sector assets such as infrastructure which may also involve an aim to maintain indefinitely and for which the maintenance costs outweigh the cash flows directly earned by the asset.

Some types of heritage items may be assets while others are not. For example, perhaps a category such as "heritage building" could be divided into two subcategories "operational" and "non-operational". Those heritage buildings that are operational would be able to meet the definition of an asset, while those that are non-operational would not. The heritage assets issue may be similar to that of “the right to tax” where there is general agreement that this right is valuable and even agreement that it is a type of “asset’, yet it is still not appropriate to include such an item in the financial statements.

Heritage items are, by their nature, things of value to a community. However, that does not automatically mean that it is appropriate to include them in the financial statements as an asset for financial reporting purposes. There should be consideration of arguments for and against reporting information on heritage items in a general purpose financial report. For some heritage items another type of reporting may be more appropriate.

For Issue 4 the IPSASB decided that it is too early in the project to consider a definition for heritage assets. The first step needed is to consider a wide set of heritage items and identify those factors that could indicate whether (a) different items are assets, liabilities or something else; and (b) information on such items should be reported in general purpose financial reports, or in the financial statements specifically, or somewhere else. The CP will need to start with heritage items generally, then discuss the different types, possible information needs for each type, and application of the Conceptual Framework to different heritage items.

Staff will develop a second issues paper, which the IPSASB will discuss at its December meeting.

14. Closing Remarks and Conclusion of Meeting

The Chair thanked members for their engagement during the week and highlighted the approval of two EDs. The meeting then closed**.**

15. Appendix 1 – September 2015 Action List

Action Required	Person(s) Responsible	Date to be Completed
1. Communications		
• Action List posted to IPSASB Extranet	Leah Weselowski	October 15
• Draft minutes posted to IPSASB Extranet	Leah Weselowski	November 16
• Update IPSASB Summary of IASB Work Plan and Tracking Table	Ross Smith	November 16
• Update GFS Tracking Table	João Fonseca	November 16
• Meeting Highlights posted to IPSASB webpage	Leah Weselowski	October 15
2. Cash Basis IPSAS Review	Paul Sutcliffe	
• Develop Issues Paper and revised draft exposure draft for December meeting		November 21
3. Public Sector Financial Instruments	Ross Smith	
• Develop drafts of chapters of Consultation Paper and circulate to TBG		October 29
• Revise agenda items and circulate as agenda item for the December meeting		November 20
4. Impairment of Revalued Assets	John Stanford	
• *Publication of ED 57, Impairment of Revalued Assets*		October 15
5. Improvements	Ross Smith	
• Publication of ED 58, *Improvements to IPSASs 2015*		October 15
6. Public Sector Combinations	Paul Mason/ João Fonseca	
• TBG Conference Call		October 16
• Issues Paper and draft ED posted as agenda item for December meeting		November 20
7. Non-Exchange Expenses	David Bean	
• Develop further Issues Papers (Performance Obligation and Non-Exchange definition) for December meeting		November 20
8. Revenue	Todd Beardsworth	
• Develop a further Issues Paper for December meeting		November 20
9. Governance Update		
• Develop revised IPSASB terms of reference, due process and working procedures	Ross Smith John Stanford	November 20
10 Public Sector Standard Setters Forum	John Stanford	

Action Required	Person(s) Responsible	Date to be Completed
• Prepare and issue formal invitation letter • Provide verbal update to December meeting		October 31 December 8
11. Emissions Trading Schemes • Develop Issues Paper for December meeting	Gwenda Jensen	November 20
12. Employee Benefits • Develop Issues Paper and draft ED for December Meeting	João Fonseca	November 20
13. Heritage Assets • Develop Issues Paper for December meeting	Gwenda Jensen	November 20

16. Appendix 2 – Voting Record

Vote #1– Approve *Impairment of Revalued Assets*

Agenda Item 4	Minutes Item 4	**Date Vote Taken**	September 22, 2015
Description	Exposure Draft	Impairment of Revalued Assets	Approved at meeting
Final Standard □	**ED** ■	**CP** □	**Other** □

IPSASB MEMBER	FOR	AGAINST	ABSTAIN	ABSENT	TOTAL
Andreas Bergmann, Chair	√				
Jeannine Poggiolini, Deputy Chair	√				
Stuart Barr	√				
Michel Camoin	√				
Ian Carruthers	√				
Robert Dacey	√				
Mariano D'Amore	√				
Rachid El Bejjet				√	
Guohua Huang				√	
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Angela Ryan	√				
Adriana Tiron Tudor	√				
Wan Selamah Wan Sulaiman	√				
Tim Youngberry	√				
Abdullah Yusuf	√				
TOTAL	**16**	**0**	**0**	**2**	**18**

Vote #2– Approve ***Improvements to IPSASs 2015***

Agenda Item 5	Minutes Item 5	**Date Vote Taken**	September 22, 2015
Description	Exposure Draft	Improvements to IPSASs 2015	Approved at meeting

Final Standard □ **ED** ■ **CP** □ **Other** □

IPSASB MEMBER	FOR	AGAINST	ABSTAIN	ABSENT	TOTAL
Andreas Bergmann, Chair	√				
Jeannine Poggiolini, Deputy Chair	√				
Stuart Barr	√				
Michel Camoin	√				
Ian Carruthers	√				
Robert Dacey	√				
Mariano D'Amore	√				
Rachid El Bejjet				√	
Guohua Huang				√	
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Angela Ryan	√				
Adriana Tiron Tudor	√				
Wan Selamah Wan Sulaiman	√				
Tim Youngberry	√				
Abdullah Yusuf	√				
TOTAL	**16**	**0**	**0**	**2**	**18**