



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 19 FEBRUARY 2004  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: PAUL SUTCLIFFE  
SUBJECT: IASB UPDATE AND IPSAS HARMONISATION WITH IAS/IFRS

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**ACTION REQUIRED**

The Committee is asked to:

- **note** the following update on arrangements for progressing the IAS/IFRS harmonization policy.

**BACKGROUND**

During the first stage of its Standards program, the PSC adopted a policy of developing accrual IPSASs based on the requirements of 22 IASs/IFRSs on issue as at August 1997 to the extent that those requirements were appropriate for public sector entities. In implementing this policy the PSC maintained the structure and text of the IASs, unless there was a public sector specific reason for a departure. The PSC has issued 20 accrual IPSASs on this basis and deferred progressing two of the IASs that were on issued as at August 1997 pending their review by the IASB. Those IASs are IAS 19 *Employee Benefits* and IAS 22 *Business Combinations*.

This memorandum outlines the current status of the active components of the IASB harmonization program as agreed by the PSC during 2003, the work undertaken by Staff in preparation for the March 2004 meeting and proposed arrangements for progressing the IASB harmonization program during the remainder of 2004 and beyond. It also notes that the “IPSAS hierarchy” to be dealt with in responding to the IASB’s “General Improvements Program” may have broader implications for the PSC’s harmonization program.

*Current status of program*

During 2002 and 2003 the IASB progressed a “General Improvements Project”, which resulted in changes to 13 existing IASs. Changes in those IASs will impact 11 IPSASs currently on issue.

At meetings in 2003, the PSC agreed that it:

- should update IPSASs to respond to changes to IASs made as a consequence of the IASB’s “General Improvements Project”. However the timing and process for those changes was to be decided after a review of the extent of changes to IPSASs at the March 2004 meeting;
- develop a strategy to deal with IASs that the PSC had not yet dealt with, including new IASs/IFRSs and existing IASs that were subject to review; and

- continue its program of monitoring IASB activities.

Action on a number of the IASB harmonization items is in progress following decisions made during 2003. In addition, the PSC draft work program included at Agenda items 6.3 and 6.4 proposes that the PSC consider its strategy in respect of a number of existing IASs for which no IPSAS currently exists in late 2004, and action projects in 2005 as appropriate.

#### *Arrangements for 2004 and beyond*

The PSC Chair has requested the PSC Vice-Chair, Mike Hathorn, to work closely with staff in the management of the PSC's IAS/IFRS harmonization program during the remainder of 2004 and beyond, and to lead and co-ordinate the development and preparation of materials for consideration by the PSC at its meetings. To facilitate this arrangement there has been some re-organization of the PSC's Agenda to draw together IASB harmonization items.

PSC Agenda item 12 now focuses on the IASB harmonisation program. It is proposed that this be a standing item on the PSC's Agenda. It comprises:

1. An update on PSC activities since the last PSC meeting. This update provides a broad high level overview of the IASB's Work Program and identifies issues of particular significance to the PSC. This report is compiled from information drawn from the IASB website. It is prepared by Matthew Bohun and LiLi Lian. To enable the report to be as current as possible, it will be compiled for inclusion in the second distribution of materials to members for each meeting. Matthew and/or LiLi will then provide a verbal report on any subsequent developments at the meeting itself.
2. Papers dealing with the current IASB general improvements project. These papers have been prepared by LiLi Lian and Li Hongxia in accordance with the directions of the PSC at its November 2003 meeting. The South African IPFA also provided valuable input to the papers included in this Agenda. To date, LiLi and Hongxia have marked up 8 IPSASs to reflect the changes made by the IASB to the equivalent IASs. As will be apparent, while the changes in "black-letter" requirement are limited, in some IPSASs there are significant changes in structure and commentary to support those black letter changes. It is proposed that the PSC work through these IPSASs during 2004 with a view to issuing a comprehensive Exposure Draft on proposed revisions in early 2005. At this meeting it is intended that the PSC complete its review of proposed amendments to IPSASs 12 *Inventories*, 13 *Leases* and 14 *Events After Reporting Date* which do not raise additional public sector specific issues to those considered by the PSC in making its submission on the IASB Exposure Draft *Improvements to International Accounting Standards* (issued in 2002). It is also proposed that the PSC commence its review of proposed changes to IPSASs 16 and 17, which are more complex. Agenda paper 12.3 provides additional information on the sequence of, and process for, review.

The recent OECD Accrual Accounting Symposium (February 2004) was attended by a number of PSC members, technical advisors, observers and staff. At the Symposium, Kevin Stevenson, the IASB Director of Technical Activities, outlined the IASB's work program and noted the significant impact that program could have on existing IPSASs and on the PSC's IAS/IFRS harmonization work program.

Discussion at the Symposium and in the OECD Task Force on Harmonization of Public Sector Accounts (TFHPSA - of which the PSC Chair is a member) noted that the hierarchy of authoritative guidance currently included in IPSAS 1 could be a powerful mechanism in enabling the PSC to provide guidance on the authority of IASs/IFRS in a timely and effective manner, and at the same time deal with the public sector specific components of its Work Program. (An update on the deliberations of the TFHPSA and its working groups will be provided at Agenda item 11). It was also noted that if the PSC hierarchy was to be effective and appropriate the PSC would need to clearly explain how it intended the hierarchy to operate and confirm its authority.

The IASB's hierarchy of authoritative guidance includes reference to its "Framework". The IASB has relocated its hierarchy to IAS 8 (IPSAS 3) and elevated it to "black-letter" standard status – the authority of the IASB hierarchy has therefore been elevated. The discussion of the PSC's hierarchy as part of the Improvements Project is likely to have implications for broader aspects of the PSC's IAS/IFRS harmonization and GFS/ESA/SNA harmonization programs.

This Agenda item is large. Accordingly for down load purposes it has been packaged as follows:

- 12a comprises the covering memoranda and preliminary papers 12.1 through 12.5. It is intended that these be discussed at this meeting. (Note 12.2 will be issued in the second distribution)
- 12b is the first part of Agenda item 12.6. It comprises IPSASs 12, 13, 14, 16 and 17 which will be considered at this meeting; and
- 12c comprises the remainder of the IPSASs.



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DATE: 19 FEBRUARY 2004  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: LI LI LIAN AND HONGXIA LI  
SUBJECT: **IPSAS GENERAL IMPROVEMENTS PROJECT**

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**ACTION REQUIRED**

The Committee is asked to:

- **agree** the process to harmonize the IPSASs with the improved IASs; and
- **agree** the changes made to the first group of IPSASs.

**AGENDA MATERIAL:**

	<b>Pages</b>
12.4 General Issues Paper	12.6-12.11
12.5 Overview of Changes	12.12-12.19
12.6 Marked-up IPSASs	12.20-12.290

**BACKGROUND**

At its meeting in Berlin, the PSC agreed that at the next meeting it would:

- review the IPSASs marked-up to reflect the changes made in the IASB's General Improvements Project; and
- decide on the timing and process to be adopted for updating the IPSASs.

As directed, Staff have marked-up the IPSASs impacted by the IASB's General Improvements Project to reflect the changes made in their equivalent improved IASs. The general criteria Staff adopted for such amendments was to process changes to all paragraphs that were the same in both the IPSAS and its equivalent IAS. However, changes were not processed for paragraphs that were introduced, or changed by the PSC, when finalizing the existing IPSAS. Staff have collaborated with the Institute of Public Finance and Auditing (IPFA) of South Africa to mark-up the IPSASs to the final improved IASs.

Staff have not completed the mark-ups for IPSASs 6 *Consolidated Financial Statements and Accounting for Controlled Entities*, IPSAS 7 *Accounting for Investments in Associates* and IPSAS 8 *Financial Reporting of Interests in Joint Ventures*. If possible, Staff will include these IPSASs in the 2<sup>nd</sup> distribution or tabled in this meeting.

The Attachment to this memo provides a brief background of the IASB's General Improvements Project and the IPSASs affected by that project.

The changes to some of the IPSASs have been so extensive that the entire IPSAS has been provided in agenda item 12.6 for review. For other IPSASs (ie IPSAS 12 *Inventories*, IPSAS 13 *Leases*, IPSAS 14 *Events after the Reporting Date*, and IPSAS 16 *Investment Property*), the changes to the IPSASs can be localized into certain sections, and only those sections that have been changed are provided. Full versions of IPSASs 12 – 14 and 16 are

available upon request. (In its ED *Improvements to International Accounting Standards* the IASB also presented extracts of IASs on Inventories, Leases, Events after the Reporting Date, and Investment Property and full text of the other IASs.)

At this meeting, Staff propose that the PSC review (and agree on) the changes made in IPSASs in the following sequence:

- IPSAS 12 *Inventories*;
- IPSAS 13 *Leases*; and
- IPSAS 14 *Events after the Reporting Date*;
- IPSAS 17 *Property, Plant and Equipment*; and
- IPSAS 16 *Investment Property*

Consequently, agenda item 12.6 sets out these IPSASs first. [In the final ED, the IPSASs will be arranged in chronological order.]

Staff are of the view that IPSASs 12 – 14 will not present many problems because the PSC reviewed the changes proposed by the IASB in its ED when the PSC prepared its response to the IASB. The PSC was supportive of the changes to these IASs (and therefore equivalent IPSASs) proposed by the IASB in its ED.

However, IPSASs 16 and 17 are more complex and the changes made to these IPSASs raise public sector specific issues. There are more changes made to IPSAS 17 than to IPSAS 16. Therefore, it is proposed that the PSC commence the review of IPSAS 17 in this meeting. Resolution of the issues in IPSAS 17 will flow through to IPSAS 16 *Investment Property*. The remaining improved IPSASs in this “package” will then be progressively reviewed at the remaining meetings in 2004. Progress at this meeting will determine which IPSASs are reviewed in July 04.

#### *Other Agenda Items*

Agenda item 12.4 identifies a number of broad issues that arose as a consequence of the IASB’s General Improvement Project. These issues will also influence other IPSASs (existing and new ones).

Agenda item 12.5 provides a brief overview of the major changes to each IPSAS arising from the General Improvements Project and identifies the PSC’s view on the issues as included in the PSC submission to the IASB on the Improvement ED.

The marked-up IPSASs are located in agenda item 12.6. A summary of main changes to each IPSAS accompanies each Standard.

**Hongxia Li**  
**PROJECT MANAGER**

**Li Li Lian**  
**ASSISTANT PROJECT MANAGER**

### Attachment: IASB Improvement Project

The IASB issued 13 improved International Accounting Standards (IASs) under the General Improvements project on December 18<sup>th</sup>, 2003. This project impacts 11 existing IPSASs. Two Standards are not included in PSC's review because IPSAS 20 *Related Party Disclosures* is different from its equivalent IAS and there is no IPSAS on earnings per share.

The IASB's Exposure Draft *Improvements to International Accounting Standards* was issued in May 2002. The IASB's General Improvements Project, which commenced in July 2001, was undertaken to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

The PSC submitted comments on the ED. In its submission, the PSC did not identify any 'public sector specific' issues that warrant departure from IASs. One of the reasons the PSC prepared the submission was so that the PSC would be ready to harmonize its IPSASs with the improved IASs without much delay. Agenda item 12.5 provides a brief summary of PSC's comments on those major changes proposed by the IASB in its ED. PSC's submission to the IASB's General Improvements ED is available upon request.

Table 1 lists the IASs and IPSASs covered in the project. (IAS 31 was initially not exposed in the General Improvements Project ED, but has been reissued as a result of the pervasive changes made in IAS 27 and 28.)

Table 1: Standards covered in the General Improvement Project

IASs	IPSASs
IAS 1 <i>Presentation of Financial Statements</i>	IPSAS 1 <i>Presentation of Financial Statements</i>
IAS 2 <i>Inventories</i>	IPSAS 12 <i>Inventories</i>
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10 <i>Events after the Balance Sheet Date</i>	IPSAS 14 <i>Events after the Reporting Date</i>
IAS 16 <i>Property, Plant and Equipment</i>	IPSAS 17 <i>Property, Plant and Equipment</i>
IAS 17 <i>Leases</i>	IPSAS 13 <i>Leases</i>
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	IPSAS 4 <i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 24 <i>Related Party Disclosures</i>	IPSAS 20 <i>Related Party Disclosures</i>
IAS 27 <i>Consolidated and Separate Financial Statements</i>	IPSAS 6 <i>Consolidated and Separate Financial Statements</i>
IAS 28 <i>Investments in Associates</i>	IPSAS 7 <i>Investments in Associates</i>
IAS 31 <i>Interests in Joint Ventures</i>	IPSAS 8 <i>Interests in Joint Ventures</i>
IAS 33 <i>Earnings Per Share</i>	Not relevant to the public sector

## General Issues arising from the IASB's General Improvements Project and Certain Related Issues

### BACKGROUND

The IASB issued 13 improved International Accounting Standards (IASs) under the General Improvements project on December 18<sup>th</sup>, 2003. As noted in the covering memo, the improvements will affect 11 existing IPSASs.

The PSC's policy has been to base the accrual IPSASs on the requirements of IASs/IFRSs and to maintain the structure and text of the IASs, unless there was a public sector specific reason for a departure.

This paper identifies general changes to the structure and style of IASs/IFRSs made in the IASB's General Improvements project. A number of these changes may also have wider impact on all existing and new IPSASs. The more pervasive of these issues are identified below, together with Staff recommendations thereon.

### ISSUES

#### (i) Equal Authority and Numbering of Objective paragraphs

*Issue: Should the PSC follow the IASB's policy on equal authority of standards and number the Objective paragraphs?*

*Background*

Each improved IAS now:

- states that all the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB; and
- makes the "objective" section of the Standard (if any) part of the Standard (ie, the objective paragraph has been numbered).

An example of the introductory paragraph which explain this in improved IASs is currently as follows:

International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1) is set out in paragraphs 1-128 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

The equivalent paragraph in existing IPSASs is as follows:

*"The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the 'Preface to International Public Sector Accounting Standards'."*

In April 2002, the IASB published its new *Preface to International Financial Reporting*

*Standards.* Para 14 of the *Preface* states that:

*“Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principle. An individual standard should be read in the context of the objective stated in that standard and this Preface.”*

There are three approaches available for the PSC to solve this major difference with respect to equal authority:

- 1) Review and update relevant paragraphs to the *Preface to International Public Sector Accounting Standards*. Given the nature of the change to the *Preface*, it would be necessary to expose those paragraphs indicating the authority of the Standards
- 2) Amend only the authority paragraph in each IPSAS affected by the General Improvements project
- 3) Do nothing

*Staff recommendation*

- Given the limited staff resources, the PSC should adopt approach 2). As resources become available, the PSC can then consider initiating a project of revising the *Preface* comprehensively. This comprehensive review could also encompass other changes made by the IASB.
- With regard to the numbering of the objective section, Staff are of the view that the PSC should follow the IASB's policy.

## **(ii) Inclusion of Amendments to Other Pronouncements in Improved IAS**

*Issue: Should the PSC include an Appendix which identifies amendments to other IPSASs that arise as a consequence of updating IPSASs affected by the General Improvements project?*

*Background*

The 13 improved IASs contain Appendices that set out the amendments to other pronouncements that will be necessary as a consequence of the improved IASs. These Appendices are authoritative. This is a policy that the IASB (and its predecessor IASC) has always adopted when issuing a new Standard. The PSC has not included such Appendices when issuing new IPSASs.

Including an Appendix which identifies changes to other IPSASs as a consequence of issuing a new IPSAS will not only align with the PSC's policy on harmonization with IASs/IFRSs, it will also help users of IPSASs to comply with IPSASs.

*Staff recommendation*

The PSC should follow the IASB's policy on adding an Appendix to set out amendments to other IPSASs that are necessary as a consequence of an updated or new IPSAS. (To illustrate, Staff include such an Appendix in IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* on pages 12.287 – 12.289.)



### (iii) Inclusion of a Basis for Conclusions in each improved IAS

*Issue: Should the PSC include a Basis for Conclusion in IPSASs and EDs?*

#### *Background*

In each improved IAS, there is a Basis for Conclusions that summarizes the IASB's consideration in reaching its conclusions. In addition, IAS 27 *Consolidated and Separate Financial Statements* includes a Dissenting Opinion depicting different opinions of Board members. Having a Basis for Conclusions is now part of the IASB's due process as formally set out in the IASB's new *Preface*, Paragraph 18 (g) and (k) of the *Preface* states:

*"Due process for projects normally, but not necessarily, involves the following steps:*

- (g) publishing within an exposure draft a basis for conclusions;*
- (k) publishing within a standard a basis for conclusions, explaining, among other things, the steps in the IASB's due process and how the IASB deal with public comments on the exposure draft."*

Existing IPSASs do not contain a Basis for Conclusions. Therefore, there is a difference between IASs and IPSASs in this regard. However, the PSC has a precedent in ED 23 *Impairment of Assets* issued in September 2003, in which it prepared a Basis for Conclusions.

#### *Staff recommendation*

The PSC should include a Basis for Conclusions in all new Exposure Drafts and IPSASs. Staff have not yet included a Basis for Conclusions in the revised IPSASs in Agenda Item 12.6. It is proposed that the Basis for Conclusions be added when the PSC completes its deliberation.

### (iv) Change certain Appendices into Implementation Guidance

*Issue: Should the PSC change certain Appendices into Implementation Guidance?*

#### *Background*

Appendices contained in previous IASs to illustrate the application of IASs have been described as Implementation Guidance in the improved IASs. Currently, IPSASs use the term "Appendix" rather than "Implementation Guidance".

The following improved IASs are affected by this change: IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 17 *Leases*. Moreover, a new Implementation Guidance has been added to improved IAS 27 *Consolidated and Separate Financial Statements*.

IAS 8 states that Implementation Guidance for Standards issued by the IASB does not form part of those Standards. The IASB explains that the term "Appendix" is retained only for materials that are part of an IFRS, and therefore they are authoritative.

Currently, such Appendices are included in the following IPSASs: IPSAS 1, IPSAS 3, IPSAS 6 and IPSAS 13.

#### *Staff recommendation*

The PSC should rename such Appendix as Implementation Guidance as the IASB has done when updating corresponding IPSASs. Appendices have not yet renamed as Implementation Guidance in revised IPSASs in Agenda Item 12.6 pending the PSC agreement.

**(v) Terminology: Shall vs Should**

*Issue: Should the PSC follow the change in terminology of the IASB?*

*Background*

In the 13 improved IASs, the term “should” has been replaced by “shall”. Existing IPSASs use “should”. The IASB has explained that this change does not change the requirement in the Standards, and clarifies that it interprets “should” as meaning “shall”.

Replacing all “should” by “shall” will align with the PSC’s policy on harmonization with the IASB. However, as a committee of IFAC, the PSC will also need to be aware of terminology used by other committees of IFAC. Currently, the IAASB is reviewing this issue.

*Staff recommendation*

The PSC should follow the IASB’s policy regarding certain terminology used in published documents, in the interest of harmonizing with IASs/IFRSs. In addition, the PSC should explain that the term “shall” used in Standards has the same meaning as “should”. Staff will update the PSC on IAASB’s decisions on this matter. (Staff have replaced “should” with “shall” in 11 updated IPSASs to show the changes made by the IASB.)

**(vi) Reference to Conceptual Framework**

*Issue: Should the PSC develop a conceptual framework?*

*Background*

In improved IAS 1, the IASB placed high emphasis on the *Framework for the Preparation and Presentation of Financial Statements*. The improved IAS 1 now clearly states that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria set out in the *Framework*. The objectives of financial statements set out in the *Framework* also become the criteria for management to judge whether departure from a requirement in a Standard or an Interpretation is appropriate.

The PSC does not have an equivalent conceptual framework, though it does define key terms emanating from IASB’s conceptual framework in its IPSASs. The PSC has previously discussed whether to develop a conceptual framework at meetings in November 2002 and April 2003. In the April 2003 meeting, the PSC noted that accrual IPSASs based on corresponding IASs did not have major differences in definitions and concepts. Thus, the PSC did not authorize the initiation of this project. Staff were asked to monitor the development of IASB concepts and definitions set out in the *Framework* and the developments of conceptual framework in other jurisdictions. However, the work program has proposed the review of this issue at the July 2004 meeting.

*Staff recommendation*

Where the IASB has referred to the conceptual framework in its improved Standards, the IPSASs should refer to the definitions in IPSASs where appropriate. Staff have adapted those references in the revised IPSASs in Agenda Item 12.6 as appropriate.

## **(vii) Effective Date and Disclosure Requirement of Earlier Application**

*Issue: Should the PSC describe the effective date of IPSASs in the same manner as in IASs, and require disclosure about earlier application?*

### *Background*

All improved 13 IASs now describe the effective date and require disclosure regarding earlier application as follows:

*“An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.”*

The changes made by the IASB emphasize the mandatory nature and authority of the timing of application of IFRSs. Disclosure about earlier application of Standards is also required in IAS 8 (equivalent IPSAS 3).

Existing IPSASs use the same wording as previous IASs to describe the effective date as follows:

*“This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX X 200X. Earlier application is encouraged.”*

Only IPSAS 16 *Investment Property* both encourages earlier application and requires disclosure about earlier application. This is because its equivalent IAS 40 *Investment Property*, issued in 2000, reflects the style of the Standards’ paragraph used in latest IASs issued by the IASB.

### *Staff recommendation*

The PSC should adopt the same requirements as the IASB regarding effective date and disclosure about earlier application.

## **(viii) Definition of IFRSs**

*Issue: Should the PSC define IPSASs?*

### *Background*

Both improved IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* define what constitute “International Financial Reporting Standards (IFRSs)”. The term “International Financial Reporting Standards” now comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Committee (IFRIC) or the former Standing Interpretation Committee (SIC).”

IPSASs do not define the term “International Public Sector Accounting Standards”.

The reason the IASB defines IFRSs is to clarify that the IASB had inherited and formally adopted pronouncements issued by the IASB and its accompanying Standing Interpretation Committee (SIC), in addition to issuing a new set of Standards called IFRSs, and emphasize the authority of these pronouncements.

*Staff recommendation*

The PSC does not have similar authoritative literature. Staff are of the view that it is not necessary to define what constitute IPSASs.

**(ix) Unnecessary definitions in certain IPSASs**

*Issue: Should the PSC delete unnecessary definitions in certain IPSASs?*

*Background*

Some terms are defined in many existing IPSASs. For example, “accrual basis”, “assets”, “liabilities”, “revenues”, “expenses” are repeatedly defined in IPSAS 1 to IPSAS 8. Generally, the IASB does not provide definitions of the same term in more than one Standard.

When the PSC issued its first few batches of IPSASs, there was a need to include the definitions of significant terms in all IPSASs – because the PSC did not have a Framework that sets out the definitions for fundamental terms. However, starting from IPSAS 9 *Revenue from Exchange Transactions*, the PSC did not provide the definitions for terms that were defined in other IPSASs. Only the definitions of terms that appear for the first time in a Standard and those previously defined terms that are of great significance to the particular IPSAS were included in subsequent IPSASs.

*Staff recommendation*

After issuing 20 accrual-based IPSASs, the PSC has already established a relatively complete set of definitions for accrual-based IPSASs. It is appropriate for the PSC to follow the IASB’s policy and only provide new definitions and other significant definitions in issuing new IPSASs and to rely on the *Glossary* for existing IPSASs.

This change will primarily impact IPSAS 1, IPSAS 3, IPSAS 4, IPSAS 6, IPSAS 7 and IPSAS 8. Staff will identify definitions that appear unnecessary when reviewing these IPSASs.

**(x) Impact on the Cash Basis IPSAS**

*Issue: Should policy decisions and specific changes arising from updating IPSASs be included in the Cash Basis IPSAS?*

*Background*

Policy decisions that the PSC make on updating the 11 IPSASs could impact the Cash Basis IPSAS. For example, changes in requirements in IPSAS 1 may affect the requirements in the Cash Basis IPSAS.

*Staff recommendation*

The PSC has previously agreed to review the Cash Basis IPSAS after 2 years of issue of this Cash Basis IPSAS. Staff are of the view that in the course of this review the PSC should consider whether policy and other decisions in respect of accrual-based IPSASs should be reflected in the Cash Basis IPSAS.

## Overview of Changes in IPSASs affected by the IASB's General Improvements Project

The table below summarizes major changes in 8 IPSASs<sup>1</sup> affected by the IASB's General Improvements project. It identifies whether the changes are new requirement, changes in existing requirements or further clarification of matters already dealt with (or implied) in the existing IPSASs. In some cases determining how to classify the change is a matter of judgment if possible.

The table identifies the PSC's views in the submission it made on proposals in the IASB's Improvements ED – that submission generally focused on the specific questions raised by the IASB in the ED. The table also identifies changes which were not proposed in the Improvement ED but were introduced by the IASB when finalizing the improved IASs. Changes on which the PSC did not make a specific comment are left blank in the table.

IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs	Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing
<b>IPSAS 1, <i>Presentation of Financial Statements</i></b>	
1) Define two new terms “Impracticable” and “Notes”. (Nature of change: New definitions/further clarification)	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1</li> </ul>
2) Emphasize that fair presentation means to represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs (Nature of change: Further clarification)	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>
3) Tighten the existing requirements regarding departure from a requirement of an IPSAS to achieve fair presentation and to distinguish the departure into where or not the relevant regulatory framework permits this departure. (Nature of change: New requirement/further clarification)	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Majority Agreed with the proposal.</li> </ul>
4) Require the use of the order of liquidity to present assets and liabilities only when a liquidity presentation provides information that is reliable and more relevant than a current/non-current presentation. (Nature of change: New requirement)	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>
5) Require a liability held primarily for the purpose of being traded to be classified as current. (Nature of change: New requirement)	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1</li> </ul>

<sup>1</sup> Overview of changes in IPSAS 6,7,8 will be provided upon the completion of review of three IPSASs.

<p style="text-align: center;"><b>IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</b></p>	<p style="text-align: center;"><b>Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</b></p>
<p>6) Reclassify long-term financial liability due to be settled within 12 months of the reporting date, or for which the entity does not have an unconditional right to defer its settlement for at least 12 months after the reporting date as current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: <ul style="list-style-type: none"> <li><input type="checkbox"/> Majority Disagreed.</li> <li><input type="checkbox"/> Noted that irrespective of which approach IASB prefers, full disclosures are necessary.</li> </ul> </li> </ul>
<p>7) Reclassify long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement-should be classified as current at the reporting date, even if the lender has agreed after the reporting date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Majority Disagreed.</li> </ul>
<p>8) Clarify the liability described in 7) to be classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least 12 months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. (Nature of change: Further clarification).</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed.</li> </ul>
<p>9) Prohibit presentation of items of revenues and expense as ‘extraordinary items’ on the face of the statement of financial performance or in the notes. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: <ul style="list-style-type: none"> <li><input type="checkbox"/> Majority agreed but believed some emphasis to extraordinary items provides useful information to users. Suggested that IAS 1 should require more disclosure regarding items that are ‘extraordinary’ and that the definition of extraordinary items be tightened as done in IPSASs.</li> </ul> </li> </ul>
<p>10) Require separate presentation, on the face of the statement of financial performance, of the entity’s surplus or deficit for the period allocated between “surplus or deficit attributable to minority interest” and “surplus or deficit attributable to equity holders of the controlling entity”. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1</li> </ul>

<b>IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</b>	<b>Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</b>
11) Require presentation, on the face of the statement of changes in net assets/equity, of total revenues and expenses for the period, showing separately the amounts attributable to equity holders of the controlling entity and to minority interest. (Nature of change: New requirement)	<ul style="list-style-type: none"> <li>Not in IASB Improvement ED but added by the IASB when finalizing IAS 1</li> </ul>
12) Disclose the judgments made by management in applying accounting policies that have the most significant effect on the amounts of items recognized in the financial statements. (Nature of change: New requirement)	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED.</li> <li>PSC submission on the IASB Improvement ED: Majority Agreed</li> </ul>
13) Disclose key assumptions concerning the future and other sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. (Nature of change: New requirement)	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed.</li> </ul>
14) Transfer the section titled “accounting policies” to IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> </ul>
15) Introduce from IPSAS 3 the section titled “net surplus or deficit for the period” to IPSAS 1. (Nature of change: Further clarification)	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> </ul>
<b>IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i></b>	
1) Eliminate the allowed alternative treatment for voluntary changes in accounting policies and correction of errors. (Nature of change: Change in requirement)	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed</li> </ul>
2) Eliminate distinction between fundamental and material errors and to replace them with ‘prior period errors’. (Nature of change: Change in requirement)	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed</li> </ul>
3) Define the term ‘impracticable’ and provide additional guidance on how to apply ‘impracticable’. (Nature of change: New definition/further clarification)	<ul style="list-style-type: none"> <li>Not in IASB Improvement ED but added by the IASB when finalizing IAS 8</li> </ul>
4) Change from commentary to black letter the hierarchy of IASB’s pronouncements, authorities and non-mandatory guidance to be considered when selecting accounting policies. (Nature of change: Further clarification)	<ul style="list-style-type: none"> <li>Details of hierarchy changed by the IASB from Improvement ED when finalizing IAS 8</li> </ul>

<p style="text-align: center;"><b>IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</b></p>	<p style="text-align: center;"><b>Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</b></p>
<p>5) On issue of a new IPSAS, an entity is required to disclose:</p> <ul style="list-style-type: none"> <li>the impending change in accounting policy; and</li> <li>if known or reasonably estimable, information relevant to assessing the possible impact that application of the new IPSAS will have on the entity's financial statements in the period of initial application.</li> </ul>	<ul style="list-style-type: none"> <li>Changed by the IASB from Improvement ED when finalizing IAS 8 to respond to concerns that the proposed requirements were sometimes impracticable</li> <li>PSC submission on the IASB Improvement ED: Do not agree with requirements proposed (NB: This issue was not specifically raised by the IASB as a 'specific matters for comment'.) <i>[The changed requirements may address the PSC's concerns.]</i></li> </ul>
<p>6) Require more detailed disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>Not in IASB Improvement ED but added by the IASB when finalizing IAS 8</li> </ul>
<p><b>IPSAS 4, <i>The Effects of Changes in Foreign Exchange Rates</i></b></p>	
<p>Note: The PSC did not review IAS 21 in detail, but agreed in principle to the proposed changes.</p>	
<p>1) Remove the notion of "reporting currency" and replace it with two notions: "functional currency" and "presentation currency" Define terms "functions currency" and "presentation currency". (Nature of change: New definitions/Change in requirement)</p>	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<p>2) Reporting entity be permitted to choose its presentation currency in the financial statements. (Nature of change: Further clarification/Change in requirement)</p>	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<p>3) Entities to translate financial statements into the presentation currency using the same method as required for translating a foreign operation for inclusion in the reporting entity's financial statements. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<p>4) Remove allowed alternative treatment to capitalize certain exchange differences. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>Consistent with IASB Improvement ED</li> <li>PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<p>5) (a) Eliminate allowed alternative treatment for goodwill and fair value adjustments to assets and liabilities that arise from the acquisition of foreign operations will be treated as</p>	<ul style="list-style-type: none"> <li>5(a) Consistent with IASB Improvement ED</li> <li>5(b) Not in IASB Improvement</li> </ul>



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<p>assets and liabilities of the foreign operations. (Nature of change: Change in requirement)</p> <p>(b) For entities which previously applied this alternative treatment need not restate (ie allowed to treat prospectively).</p>	<p>ED but added by the IASB when finalizing IAS 21</p> <ul style="list-style-type: none"> <li>• PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<p>6) Exclude from its scope foreign currency derivatives that are within the scope of IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed in principle</li> </ul>
<b>IPSAS 12, <i>Inventories</i></b>	
<p>1) Remove the reference to “inventories held under historical cost system” to clarify that the Standard applies to all inventories that are not specifically excluded from its scope. (Nature of change: Further clarification)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>
<p>2) Clarify that some types of inventories are outside its scope while certain other types of inventories are exempted only from the measurement requirement of the Standard. (Nature of change: Further clarification)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 2</li> </ul>
<p>3) Prohibit exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the costs of purchase of inventories. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>
<p>4) Clarify that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of financing. (Nature of change: Further clarification)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 2</li> </ul>
<b>IPSAS 13, <i>Leases</i></b>	
<p>1) Define the term “commencement of the lease term” to be distinguished from “inception of the lease”. (Nature of change: New definition/further clarification)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 17</li> </ul>
<p>2) Split the lease of land and buildings into two separate elements and to allocate the minimum lease payments between the land and buildings elements. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed.</li> </ul>
<p>3) Define the term “initial direct cost” and require initial direct costs in negotiating leases and incremental costs directly attributable to the lease transaction to be capitalized and allocated over the lease term. (Nature of change: New definition/change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed.</li> </ul>

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<b>IPSAS 14, <i>Events after the Reporting Date</i></b>	
<p>1) Require an entity not to recognize those dividends declared after the reporting date as a liability at the reporting date, but disclose them in the notes. (Nature of change: Further clarification)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed</li> </ul>
<p>2) Include transitional provision to treat the receipt of information after the first adoption of IPSASs about estimates that it had made previous GAAP as non-adjusting events.</p>	<ul style="list-style-type: none"> <li>• Not in Improvement ED but added by the PSC to provide the same relief as in IFRS 1</li> </ul>
<b>IPSAS 16, <i>Investment Property</i></b>	
<p>1) Allow property interest held by a lessee under an operating lease to be classified as investment property provided that:</p> <ol style="list-style-type: none"> <li>a. the rest of the definition of investment property is met;</li> <li>b. the operating lease is accounted for as if it were a finance lease in accordance with IPSAS 13; and</li> <li>c. the lessee uses the fair value model set out in IPSAS 16. (Nature of change: New requirement)</li> </ol>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Agreed.</li> </ul>
<p>2) Require an entity to apply one general asset recognition principle to all investment property costs at the time when they are incurred, including initial costs and subsequent expenditures. (Nature of change: Change in requirement. This means that the recognition principle for subsequent expenditures as currently reflected in IPSAS 16 has been substantially changed)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16</li> </ul>
<p>3) Require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or unless the fair value of neither the asset given up nor the asset received can be reliably measured. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16</li> </ul>
<p>4) Require an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and to include the cost of replacement in the carrying amount of the asset. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16</li> </ul>
<p>5) Require an entity to include compensation from third parties for an investment property that was impaired, lost or given up in surplus or deficit when the compensation becomes “receivable”. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing 40 per changes in IAS IAS 16</li> </ul>
<b>IPSAS 17, <i>Property, Plant and Equipment (PPE)</i></b>	
<p>1) Define the term “entity-specific value” Determine if exchange transaction has commercial substance. (Nature of change: New definition/new requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16</li> </ul>

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<p>2) Require an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent costs. (Nature of change: Change in requirement. This means that the recognition principle for subsequent expenditures as currently reflected in IPSAS 17 has been substantially changed)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16.</li> </ul>
<p>3) Require an entity to include asset dismantlement, removal and restoration costs as an element of cost of an item of PPE whether incur as a consequence of installing or using the item. (Nature of change: Further clarification)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED.</li> </ul>
<p>4) Require an entity to measure an item of PPE acquired in an exchange transaction at fair value unless the exchange transaction lacks commercial substance or unless fair value of neither of the assets exchanged can be determined reliably. (Nature of change: Change in requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: Majority Agreed.</li> <li>• Guidance on commercial substance not in IASB Improvement ED but added by the IASB when finalizing IAS 16.</li> </ul>
<p>5) Require an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment. (Nature of change: New requirement/further clarification)</p>	<ul style="list-style-type: none"> <li>• Not in Improvement ED but added by the IASB when finalizing IAS 16.</li> </ul>
<p>6) Require an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognized, even if during that period the item is idle. (Nature of change: Change in requirement/further clarification)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> <li>• PSC submission on the IASB Improvement ED: <ul style="list-style-type: none"> <li>❑ Concerned that the proposal may not be consistent with the depreciation requirements of the ED, especially where the temporary idle period was intended and built into the estimate of the useful life;</li> <li>❑ Agreed that such PPE should be tested for impairment annually.</li> </ul> </li> <li>• Guidance on when to start depreciating not included in the ED but added by the IASB when finalizing IAS 16.</li> </ul>
<p>7) Require an entity to include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up when the compensation becomes “receivable”. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>

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<p>8) Require an entity to derecognize the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IPSAS 9 <i>Revenue from Exchange Transactions</i> are met. (Nature of change: New requirement/further clarification)</p>	<ul style="list-style-type: none"> <li>• Consistent with IASB Improvement ED</li> </ul>
<p>9) Require an entity to derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of replacement in the carrying amount of the item. (Nature of change: New requirement)</p>	<ul style="list-style-type: none"> <li>• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16</li> </ul>