



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 18 FEBRUARY 2005  
MEMO TO: MEMBERS OF IFAC IPSASB  
FROM: PAUL SUTCLIFFE AND LI LI LIAN  
SUBJECT: IPSASB'S PROPOSED POLICY DOCUMENT

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**ACTION REQUIRED**

The Board is asked to:

- **review** the draft policy document; and
- **approve** the policy document (subject to any amendments agreed at the meeting) for publication with the omnibus ED.

**AGENDA MATERIAL:**

	<b>Pages</b>
11.2 Draft IPSASB's Convergence Policy	11.6 - 11.11

**BACKGROUND**

The IPSASB currently has limited resources. During 2004, it continued its fund-raising activities with limited success. Those fund raising activities will continue during 2005. At its November 2004 meeting, the IPSASB (then the PSC) refocused its work program in the short and medium terms to reflect its current resource constraints.

Staff were directed to prepare a draft policy document explaining the limited nature of the IPSASB's IFRS convergence in the short term. The draft policy document is attached for review at this meeting. It is intended that the document be updated as necessary for issue together with the omnibus improvements ED following the IPSASB's July 2005 meeting.

## DRAFT IPSASB's IFRS Convergence Policy

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

### Introduction

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

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

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

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

### IFRS Convergence Program in the Short Term

The current IFRS convergence program is ~~in~~ now limited to the IPSAS Improvements Project. This project involves updating 11 IPSASs to reflect the changes made to the improved IASs that were issued by the IASB in December 2003. The IPSASs included in this project~~impacted by this project~~ are identified in Appendix 1. These proposed improved IPSASs do not incorporate the requirements of IASs/IFRSs which have not yet been reviewed by the

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

IPSASB – the IPSASB has not yet formed a view on the applicability of those IAS/IFRS requirements to the public sector. Therefore, the proposed improved IPSASs will not necessarily reflect the requirements of the ir equivalent IASs on issued as at July 2005. (The IFRSs which the IPSASB has not yet reviewed are identified at Appendix 3.)

The remaining 10 IPSASs will not be updated for amendments to the IASs/IFRSs on which they are based in the short term. Similarly, the IPSASB will not issue new IPSASs that are based on IFRSs/IASs for which there is no equivalent IFRS in the short-term.

### **Conceptual Framework**

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

### **The Way Forward**

The IPSASB is committed to reactivate its full IFRS Convergence Program when additional resources are in place. That program will involve the review of each IAS/IFRS for its applicability to the public sector. In this context, tThe IPSASB has noted that different ~~mechanisms approaches~~ may be adopted to achieve convergence of IPSASs with relevant IFRSs, including ~~accepting the text of the IFRSs unchanged where appropriate and~~ amending the text of the IAS/IFRS to deal with public sector specific circumstances where necessary and/or accepting the text of the IFRSs unchanged where appropriate and providing additional public sector guidance in supporting material. The IPSASB will consider and, as appropriate, adopt ~~tdifferent approaches hese mechanisms as appropriate~~ in progressing its full IFRS Convergence Program.

## APPENDIX 1: BACKGROUND OF THE IPSAS STANDARDS PROGRAM

### Background

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

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

To date, the IPSASB has issued 22 IPSASs. They consist of 21 accrual basis IPSASs that are based on International Financial Reporting Standards (IFRSs),<sup>2</sup> and a Cash Basis IPSAS. In regards to those IPSASs that are based on IFRSs, ~~the IPSASB has a policy of maintaining~~ the text of the IFRS is retained, unless there is a public sector specific reason for a departure, or ~~when the IPSASB needs to provide~~ are included additional examples to illustrate certain requirements in the public sector context.

### IPSASs ISSUED AS AT JULY 2005

List of Accrual IPSASs with, date of issue of the IPSAS, the equivalent IASs and the most recent version of those IASs as at July 2005

Accrual IPSASs	Issued Date	Equivalent IASs	Most Recent IASs/IFRSs <sup>2</sup>
IPSAS 1, "Presentation of Financial Statements"*	May 2000	IAS 1 (1997)	IAS 1 (2004)
IPSAS 2, "Cash Flow Statements"	May 2000	IAS 7 (1993)	IAS 2 (2003)
IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"*	May 2000	IAS 8 (1993)	IAS 3 (2003)
IPSAS 4, "The Effect of Changes in Foreign Exchange Rates"*	May 2000	IAS 21 (1993)	IAS 21 (2003)
IPSAS 5, "Borrowing Costs"	May 2000	IAS 23 (1993)	IAS 23 (2003)
IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"*	May 2000	IAS 27 (1997)	IAS 27 (2004)

<sup>2</sup> The most recent IASs/IFRSs ~~refer to the most recent version of the Standards that~~ incorporate the ~~consequential~~ amendments made as a consequence of new IFRS and revised IASs which have been -issued.

<b>Accrual IPSASs</b>	<b>Issued Date</b>	<b>Equivalent IASs</b>	<b>Most Recent IASs/IFRSs<sup>2</sup></b>
IPSAS 7, "Accounting for Investments in Associates"*	May 2000	IAS 28 (1998)	IAS 28 (2004)
IPSAS 8, "Financial Reporting of Interests in Joint Ventures"*	May 2000	IAS 31 (1998)	IAS 31 (2004)
IPSAS 9, "Revenue from Exchange Transactions"	Jul 2001	IAS 18 (1993)	IAS 18 (2004)
IPSAS 10, "Financial Reporting in Hyperinflationary Economies"	Jul 2001	IAS 29 (1994)	IAS 29 (2003)
IPSAS 11, "Construction Contracts"	Jul 2001	IAS 11 (1993)	IAS 11 (1993)
IPSAS 12, "Inventories"*	Jul 2001	IAS 2 (1993)	IAS 12 (2003)
IPSAS 13, "Leases"*	Dec 2001	IAS 17 (1997)	IAS 13 (2004)
IPSAS 14, "Events After the Reporting Date"*	Dec 2001	IAS 10 (1999)	IAS 10 (2004)
IPSAS 15, "Financial Instruments: Disclosure and Presentation"*	Dec 2001	IAS 32 (1998)	IAS 32 (2004)
IPSAS 16, "Investment Property"*	Dec 2001	IAS 40 (2000)	IAS 40 (2004)
IPSAS 17, "Property, Plant and Equipment" *	Dec 2001	IAS 16 (1998)	IAS 16 (2004)
IPSAS 18, "Segment Reporting"	Jun 2002	IAS 14 (1997)	IAS 14 (2004)
IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets"	Oct 2002	IAS 37 (1998)	IAS 37 (2004)
IPSAS 20, "Related Party Disclosures"	Oct 2002	IAS 24 (1994)	IAS 24 (2004)
IPSAS 21, "Impairment of Non-Cash-Generating Assets"	Dec 2004	IAS 36 (2004)	IAS 36 (2004)

### Cash Basis

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

\* IPSASs that are within the IPSAS Improvements Project

# Although IAS 24, "Related Party Disclosures" (equivalent IPSAS 20) was also amended by the IASB and issued with other improved IASs in December 2003, ~~the IPSASB decided not to update~~ IPSAS 20 is not being updated. This is because IPSAS 20 differs was drafted substantially different from IAS 24 to deal with public sector specific circumstances, and the changes proposed to IAS 24 were not relevant to those aspects IPSAS 20.

## APPENDIX 2: IPSASB's WORK PLAN 2005- 2007

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

### APPENDIX 3:

#### LIST OF IFRSs/IASs FOR WHICH THERE IS NO EQUIVALENT IPSAS

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

\*\* ~~IAS 32 is included because~~ I – the IASB revised IAS 32 ~~this Standard~~ in December 2003. The December 2003 version is substantially different from the version on which IPSAS 15 is based on.

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