



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item  
3**

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**DATE:** November 11, 2007  
**MEMO TO:** IPSASB Members and Technical Advisors  
**FROM:** Stephenie Fox  
**SUBJECT:** Rules of the Road

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**ACTION REQUIRED**

The IPSASB is asked to:

- **Approve** the policy on modifying IASB documents.

**AGENDA MATERIAL:**

**Item**

**3.1** Issues Paper

**3.2** Policy on modifying IASB documents (“Rules of the Road”)

**NOTE** See also intranet posting September 17, 2007(see Beijing agenda, Rules of the Road folder) related to experiences in the UK, Australia and New Zealand.

**Background**

The IPSASB undertook an extensive strategic planning process starting in 2006 and culminating in March 2007 with the approval of a new strategic plan. One of the outcomes of that strategic planning was the recommitment of the IPSASB to IFRS convergence. The IPSASB determined that its obligation to its constituents is best met through an IFRS convergence strategy that identifies projects based on the IASB workplan and standards and which specifically considers whether there are public sector specific reasons for departing from those standards. The standards will then be adapted to reflect public sector differences where appropriate.

To this end, while the IPSASB generally agreed on this “review and adapt” approach, they saw it as inextricably linked to a project that would set out the criteria for IFRS convergence. It was agreed in March 2007 that a fundamental tenet to IFRS convergence is the need to consider the “rules of the road” that would contribute to the discussion of when an IASB document would be adapted for the public sector. There is a belief that a more rigorous process needs to be established to help the IPSASB assess when a public sector departure is appropriate and necessary. Thus this project was initiated with the goal of developing a succinct policy for modifying IAS/IFRS for the public sector.

The IPSASB discussed this again in July with the goal of narrowing down some of the challenges and issues that need to be addressed in such a policy. One of the base premises identified in July was the need to get involved in the IASB's standard setting process as early as possible in any particular project.

The IPSASB also discussed a number of other issues that are envisaged to be addressed by "rules" for convergence. It is a fact that public sector issues are still not considered by the IASB when developing or amending its standards. While there are some lessons that can be learned by considering how national standard setters have established processes to converge with IFRSs, the fact that the IPSASB sets standards specifically for the public sector is a fundamental difference. Those standards setters that use IFRS for the public sector have set out their own policies for amendments to address public sector issues.

At the IPSASB's request information was sought from a number of sources who have embarked on some sort of convergence policy for the public sector, specifically the UK, Australia, and New Zealand. This information was posted to the intranet on September 17, 2007 (see Beijing folder, Rules of the Road) and may be useful background.

Staff have developed an issues paper (agenda item 3.1) that sets out some of the considerations in developing a policy for modifying IASB documents. It is intended that this paper assist the IPSASB in making decisions about the rules of the road in order to approve a policy at this meeting for moving forward in applying these rules.

### ***Outstanding Issues***

In developing this policy paper there are some issues that the IPSASB still needs to address and that flow naturally from the consideration of the rules of the road. Staff has outlined 2 issues below and encourages members to consider other issues for discussion in Beijing.

#### **i) Disagreement with IASB Conceptual Position**

The underpinning of the Rules of the Road project is to establish a process for identifying public sector specific reasons for departure from IFRSs. On this basis, all departures from IFRSs would be filtered through the rules and debated in the context of whether there is a public sector specific reason for a difference.

If the only basis for departing is a public sector specific reason, then any debate of the principles of the standard should be limited to that context. However, there is some view that if the IPSASB disagrees with a conceptual position of the IASB then this is a good public sector specific reason that would allow the position to be debated.

In the long term it is the IPSASB's conceptual framework that will form the basis for developing all standards. As highlighted in Montreal, the conceptual framework in effect becomes the rules of the road once complete. Instead of asking whether a standard converges with an IFRS the question will be "is the standard consistent with the framework?" However, in the shorter term it is necessary that rules of the road be established and these are practical criteria intended to help

advance the convergence agenda and allow the IPSASB to develop a full suite of quality standards in a time efficient manner.

Committing to a review and adapt approach to IFRS convergence allows the IPSASB to develop standards that reflect some public sector context. Applying criteria that assist in determining when departures for public sector reasons are appropriate establishes some rigour in the process of convergence and puts the onus on the IPSASB to support the departure and explain it in the Basis for Conclusions.

If the IPSASB is truly committed to IFRS convergence except when there is a public sector specific reason for departure then it must question whether any discussion can occur other than in the context of the identification of these public sector differences. Disagreement with an IASB conceptual position would only serve as a basis for departure if that conceptual position is inappropriate for the public sector, as highlighted through application of the rules. Arguably, by applying the rules, any conceptual position that is inappropriate for the public sector should be supportable in the framework of the rules.

Therefore, staff is of the view that the process of applying rules of the road to all IASB documents to identify public sector specific reasons for departure should lead naturally to conclusions on IASB conceptual positions if they are inappropriate for the public sector. By applying the rules the IPSASB will be in a stronger position to explain any departures and highlight the public sector issues.

## **ii) Structure of IPSAS**

As part of the discussion of Rules of the Road, one Board member has suggested that there is a need to discuss the structure of IPSASs. As a general comment, as a result of previous convergence projects, including the General Improvements project, there has been a general acceptance that, as much as possible, the text and style of the IFRS shall be maintained. Certainly recent projects have demonstrated this philosophy, for example effective with IPSAS 22 IPSASs have included an Introduction section, similar to the IASB approach. Recent exposure drafts have also include “core principles” similar to IASB.

Before debating the rules for convergence, it may be worthwhile for the IPSASB to consider whether it agrees with the basic premise that the text and style of IFRSs should be maintained as much as possible. This is currently included as a rule of application and does have an impact on some decisions.

Specific concerns raised by the member include the use of an “introduction” that is presented after the table of contents versus a “summary” that is presented before the table of contents and the use of examples in the authoritative standards section.

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***Policy for Modifying IASB documents for the Public Sector***

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**Introduction**

The International Public Sector Accounting Standards Board (IPSASB) develops International Public Sector Accounting Standards (IPSASs) for the accrual and cash bases of accounting. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements.

The IPSASB has adopted a policy of converging accruals basis International Public Sector Accounting Standards with International Financial Reporting Standards issued by the International Accounting Standards Board to the extent that these Standards are appropriate for the public sector. In practice, this has meant that where an individual IFRS has relevance in the public sector, the IPSASB has adapted that IFRS to the public sector, making as few changes as possible. Not all IFRSs are directly relevant to the public sector and in many instances the IPSASB has deferred adaptation of these standards to the public sector.

As a result of its recent strategic planning process the IPSASB has recommitted to IFRS convergence and in doing so is developing a policy for modifying IASB documents for the public sector – for development purposes called “Rules of the Road”. This paper sets out the issues considered in developing the rules in order to allow the IPSASB to approve a policy that will be applied at the initiation stages of all projects.

**Background**

In developing the rules of the road it is important to recall IPSASB’s mission and objectives with respect to public sector financial reporting. The IPSASB’s mission is:

*“To serve the public interest by developing high-quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements.”*

This will enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making.

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

those of IASB to the extent the requirements of IFRSs are appropriate to the public sector.

***Where we are now***

The IASB is moving rapidly ahead with an extensive work program that includes issuing new IFRSs (including interpretations) as well as revising and updating existing IASs. At this juncture, the IPSASB has secured funding and its commitment to IFRS convergence as a strategic area of focus has been confirmed.

The IPSASB remains committed to the objective of converging IPSASs with IFRSs, unless there is a public sector specific reason for a departure. At the same time it seeks to develop high-quality accounting standards. Lastly, the IPSASB has a desire to add value to the standard setting process in order to enhance the quality and transparency of public sector financial reporting. The commitment to the due process will add value to the IFRSs in a public sector context and will ultimately contribute to strengthening public confidence in public sector financial management.

The IPSASB's commitment to convergence, unless there is a public sector specific reason for departure, leads logically to the conclusion that the starting point of any approach is a presumption that the need for any public sector specific departures would have to be explained. In analyzing the relevant IFRS the case would have to be made for a public sector departure. Otherwise, the default position is that full convergence occurs.

In reality the process is rarely so simple. Even in those jurisdictions where convergence with IFRS has been endorsed there are a number of key public sector differences that are accommodated.

The IPSASB has noted the importance of establishing criteria for identifying when a public sector difference warrants departure. Having these "rules of the road" will help to delineate discussions and should serve to focus debate to those issues which are truly public sector specific and to enhance consistency in application. The fact that the due process continues to exist and that any IPSAS developed would be issued as an Exposure Draft provides a fail safe in the process in the event that public sector specific issues have not been identified appropriately. Even where a decision is made that there are no public sector specific differences, an Exposure Draft would be issued to ensure feedback is received.

***Why is this needed?***

There are a number of reasons why the time is right to develop rules of the road. In projects undertaken to update certain IPSAS as a result of changes to the related IAS/IFRS, challenges have been noted in determining the reasons for certain modifications. Staff has persistently had difficulty for example understanding the reasons for public sector departures as they have not been well documented in the standard or in

the basis for conclusions. This has made analysis of any proposed new changes more challenging.

In addition, there have been inconsistencies in applying the policy to adopt IFRS unless there is a public sector reason for departure. Members have commented on the lack of clarity with respect to when a departure is appropriate and little discipline in the process. Given the new commitment to IFRS convergence the IPSASB feels it is time to have an actual process in place to consider whether there are public sector issues and, if so, whether they warrant departure in the IPSAS. In addition there needs to be a process for describing any departures and the rationale in the basis for conclusions.

Ultimately, this should contribute to some acceleration of the standard setting process in cases where issues have been dealt with by the IASB. There should be less “reinventing the wheel” and this will free the Board’s agenda time to address public sector specific projects like fiscal sustainability and performance reporting.

The IPSASB has never published an explicit statement covering the circumstances in which it will make a change to the text of an IFRS when adapting it to the public sector. At the meeting in March 2007, the IPSASB decided that developing a set of “rules of the road” for converging IPSASs with IFRSs would be a useful tool for both the IPSASB itself and the technical staff.

In the interests of transparency and accountability, staff is of the view that the IPSASB establish and publish its criteria for modifying IASB documents on the website. This will enable constituents to understand the circumstances in which it is likely that the IPSASB will vary from the wording of an IFRS, either in matters of terminology, or more importantly in matters of principle or substance.

### ***What does the road look like?***

In Montreal the IPSASB had some discussion as to when an IASB document should be considered or when the IPSASB should get involved in the IASB process. The consensus was that the IPSASB should be involved as early as possible in order to be able to influence and provide comments early on. Therefore it is the view of staff that any IASB project, whether it be a research paper, consultation paper, ED of an IFRS or an IFRIC, should be considered under the criteria. In an ideal world the IPSASB would target convergence projects as soon as a project is on the IASB active workplan and identify at that time any potential public sector issues and differences. The rules of the road set out here have assumed that the IPSASB’s first involvement in any project would be the initial screening for public sector differences. Of course this screening should naturally occur along the way as any project evolves.

**Question 1: Do you agree that all IASB activities/projects should be subject to the rules of the road and be considered for active inclusion on the IPSAS workplan?**

### **What is the process for assessing IASB documents?**

Having established that the “road” starts when the IASB initiates activity on a project in its workplan, it is necessary to consider what the process is for assessing these in the context of public sector. It is expected that with any project staff would initiate research based on a number of steps that will aid in identifying public sector issues and then considering these to determine if they should result in different accounting. In addition the rules for what modifications would occur if a different treatment is allowed are established including limitations on deletions and when additions can be made. Along the way staff may develop various tools, such as checklists, for applying the rules and it is expected that fine tuning could occur in

It is expected that any modifications would be discussed in the basis for conclusions in detail including, most importantly, a detailed description of the rationale for any departures in the context of public sector specific issues.

As an overarching principle the following statement sets out the IPSASB’s goals with respect to developing accrual IPSASs that are converged with IFRSs:

*The IPSASB develops accrual IPSASs that are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to*

- maintain the accounting treatment and original text of the IFRSs unless there is a significant public sector issue which warrants a departure; and*
- Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB. (paragraph 18 preface)*

Within the process staff have identified a series of steps that would be undertaken each with a number of rules to be applied. The expectation is that each time an IASB project is considered, staff would prepare an analysis for the IPSASB that would outline how the rules have been applied and assist in coming to decisions on the outcome of a project. The Appendix at the end of this issues paper is a flowchart of the proposed process flow that would be undertaken for each IASB project or activity being considered.

Before applying the rules within each step it is important to note that, as in any principles based standard setting process, professional judgment will be required in applying the rules. It will be necessary at times to make an interpretation of the rules in order to make a decision. In such cases it is important that the IPSASB document the reasons for its decisions in the related Basis for Conclusions. In addition, an ongoing assessment of the relationship with other IPSASB standards particularly internal consistency between standards will be part of the process.

## **The Rules of the Road**

### **Step 1: Are there public sector issues?**

*The goal of applying these rules is to identify any public sector issues that might arise.*

In assessing whether there are public sector issues consider:

- Does the IASB document affect accounting policies?
- Does the IASB document affect principles or objectives of financial reporting?
- Does the IASB document affect transactions?

Items that might be considered include:

- Are there contributed/donated assets?
- Are there non cash generating activities?
- Are there accountability/stewardship differences?
- Are there sustainability issues?
- Are there differences related to the structure or control of assets?
- Internal consistency with existing IPSASs

It is the view of staff that this is an area where the development of tools such as checklists might assist in filtering out public sector differences. The challenge with such tools is to ensure they do not contribute to a “checklist approach” to standard setting.

If, as a result of applying the rules in step 1, the analysis demonstrates that there are public sector issues, then it would be necessary to proceed to a subsequent step that analyzes these public sector issues.

If the determination is that no public sector issues exist then there would be little modification to the IASB documents required. In such cases the IPSASB equivalent document would be converged with the IASB document other than for changes made to “public sectorize” the language and terminology. Rules set out in step 5 would be applied in such cases.

### **Step 2: Do the public sector issues warrant departure?**

*The goal of applying these rules is to determine if the public sector issues warrant a departure in recognition or measurement or in presentation or disclosure.*

Having determined that there are public sector issues, it is important to recognize that this does not automatically assume that a difference in accounting would result from these issues. In other words, an analysis needs to be conducted to determine if the public sector issues that have been identified warrant a departure in accounting treatment.

In determining whether there is a public sector specific reason for a departure from an IASB document, the objectives of financial reporting in the public sector would be



considered. Criteria to be assessed in determining whether the public sector issue warrants a departure from the related IASB document include:

1. Where applying the international accounting standards/interpretations would result in misleading financial statements i.e. would not meet the qualitative characteristics.
2. Where applying the international accounting standards/interpretations would result in a loss of accountability to stakeholders
3. Where the cost of applying the international accounting standards/interpretations exceeds the benefit. However, there is a rebuttable presumption that the overall costs of complying with standards will not differ in the private sector and the public sector.
4. Where applying the international accounting standards/interpretations would mean the objectives of public sector financial reporting would not be met.

If , as a result of applying the rules in step 2 the determination is made that the public sector issues warrant a departure, then it would be necessary to proceed to a subsequent step 3 that analyzes these public sector issues with respect to their significance overall..

If the determination is that the public sector issues do not warrant a departure then there would be little modification to the IASB documents required. In such cases the IPSASB equivalent document would be converged with the IASB document other than for changes made to “public sectorize” the language and terminology. Rules set out in step 5 would be applied in such cases.

**Step 3 – Are the departures so significant that a public sector specific project should be initiated?**

*The goal of applying these rules is to determine if the public sector issues that warrant a departure from the related IASB document are so significant that a public sector specific project should be initiated.*

In assessing whether a public sector specific project should be initiated, it is necessary to consider the nature of a particular transaction or entity and its materiality in the public sector. If the nature of the transaction is unique and/or the objectives of financial reporting would not be met because the transactions are of greater materiality or significance than in the private sector this might lead to the conclusion that a separate public sector specific project should be undertaken. This would normally be the case if, when assessing the standard as a whole this determination is made, rather than on a requirement by requirement basis within the standard.

Examples of such situations include the conceptual framework project, where the objectives and users of government financial reports are so fundamentally different and have such a pervasive effect on the framework as a whole that the IPSASB initiated a new project. Likewise for service concession arrangements, the IASB IFRIC dealt only with the operator side of these transactions though the public sector often is involved in

such transactions as the grantor – a significant public sector specific transaction. The lack of guidance on such a fundamental issue drove the IPSASB to approve a new project on service concessions arrangements for the public sector.

If, as a result of applying the rules in step 3 it is determined that the public sector departures are so significant that a public sector specific project should be initiated, a project brief would be prepared for the IPSASB's approval and the project would proceed along the usual standard setting due process.

If the departures are such that they are not so fundamental as to require a separate project but can be addressed within a converged IASB document, then it would be necessary to proceed to step 4 and consider how the IASB document would be modified for the public sector.

#### **Step 4: Modify IASB documents**

*The goal of applying these rules is to set parameters on the modifications that would be made to an IASB document to address public sector departures.*

When a decision has been made that public sector issues that warrant departure can be addressed within a converged IASB document with some modification, it is important to establish parameters for the extent of modification allowed. Modifications should be made only as they relate to the specific public sector issue that provoked the amendment. In that context, amendments will be limited and would result after applying the following rules:

##### ***Deletions***

As a general comment it would be expected that there would be few if any deletions to IASB documents in this situation. For example, even private sector specific examples would be left intact unless it was determined that their inclusion would result in misleading application of the standards in the public sector. Minimizing deletions of private sector guidance and examples should reduce the amount of deliberations required to modify the IASB documents.

- Deletions from, or other amendments to, an IASB standard will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.
- Deletions would occur to eliminate options in accounting treatments if one option is clearly inappropriate for the public sector
- No disclosures may be deleted – IFRS disclosures are considered minimum disclosures
- Examples would only be deleted if it is determined that their inclusion in the document would have a negative impact on applying a requirement in the public sector. Examples that are not applicable to the public sector but which not affect interpretation in the public sector would be left intact.

***Additions:***

As a general comment it is expected that additions to IASB documents would, without exception, relate to the public sector specific issue(s) that precipitated the need to modify the IASB document. Every addition should be tested against that supposition in order to avoid unnecessary additions.

- Disclosure requirements may be added in order to better meet the objectives of public sector reporting.
- Public sector examples may be added. It would be expected that where a private sector example has been deleted because it is inappropriate to the public sector, a public sector example would be added. In cases where private sector examples are not deleted but are not applicable to the public sector, a public sector example may be added.
- Guidance may be added that provides public sector context.
- Recognition and measurement requirements may be added if doing so will result in the objectives of public sector financial reporting being better met.

**Step 5: Issue IPSAS converged (to varying degrees) with IASB documents**

*The goal of applying these rules is to identify changes in style and terminology that are to be applied to all IPSASs.*

Other than when a public sector specific project is initiated, as a result of applying the rules outlined in steps 1 through 4, the outcome will be an IPSASB document that is converged to a large degree with the related IASB document. In some cases there will be virtually no divergence (outcome of negative response on steps 1 and 2) in terms of the recognition, measurement and disclosures. For those IPSASs that result from the negative response on step 3 there will be amendments to the related IASB document that address the specific public sector issue in accordance with applying the rules of step 4.

In all cases, when an IPSASB document is converged with a related IASB document changes will be made to the style and structure for preparing or modifying the related IPSASB document. These amendments are similar to those identified and applied for the General Improvements project. In that context, amendments will be limited and would result after applying the following rules:

- the text and style of the IFRSs will be maintained as much as possible;
- The word “shall” rather than “should” is used for black letter requirements;
- Inclusion of a boxed rubric at the front of each IPSAS. The rubric to an IPSAS identifies the material that constitutes the IPSAS, and the documents that provide the context in which the IPSAS should be read;
- Deletion of unnecessary definitions in certain IPSASs;

- Replacing cross-referencing to IAS/IFRS for which an equivalent IPSAS has not been issued with “the relevant international or national accounting standard dealing with [specific topic]”;
- Changes in terminology e.g. replacing “business” with “entity”;
- Describing the effective date of the IPSAS in the same manner as in the equivalent IAS;
- Appendices form part of an IPSAS to which they belong;
- Including Amendments to Other Pronouncements as an appendix to the IPSAS. The appendix identifies amendments to other IPSASs that arise as a consequence of updating the IPSAS;
- Renaming certain non-authoritative Appendices (such as Illustrative Examples) as Implementation Guidance, which accompanies but does not form part of an IPSAS; and
- Including a Basis for Conclusions for each IPSAS that accompanies but does not form part of an IPSAS. The Basis for Conclusion focuses on the reasons why the IPSASB decided that certain requirements in the IPSAS should depart from the equivalent IAS. These reasons should be set out in detail the public sector issue that the IPSASB identified and the rationale for allowing a departure from the related IASB document.

**Question 2: Do you agree with the proposed steps and rules of the road?**

**Proposed Modifications**

As with any standard setting project it is necessary that public comment is sought. Proposed changes to IASB standards will be issued as exposure drafts of proposed IPSASs. The IPSASB will indicate the public sector specific reason for any departure. Respondents would be invited to comment on any aspect of the ED including any departures and whether these are supported by public sector specific reasons.

All exposure draft responses will be analyzed by staff and reviewed by the IPSASB as part of the usual standard setting due process in developing IPSASs or other documents such as interpretations.

In addition, as noted previously, it is fundamental that the Basis for Conclusions in every IPSASB issued document include a detailed description of the rationale for departures from IASB related documents.

**The Importance of the Relationship with the IASB**

One of the fundamental outcomes of the rules of the road project is the need to develop an explicit process for monitoring the work of the IASB. IASB activities and outputs must be monitored on an ongoing basis and assessed in the context of convergence work that might need to be done by the IPSASB. While staff track the IASB’s activity and report to the IPSASB, there needs to be a more proactive and structured approach to this.

Staff will be developing a process where the IASB workplan is reviewed every quarter for changes and an assessment made of projects as to whether they are appropriate for consideration by the IPSASB. Staff have already started by reviewing existing exposure drafts and did prepare an IPSASB response to one. You will recall that the IPSASB agreed that staff should prepare responses to EDs and circulate these to the Board on a negative comment basis. Staff are proposing that as part of the process of tracking IASB activities a schedule of existing documents for comment be prepared and a strategy for responding developed. This will assist in ensuring that the views of the IPSASB are represented as early in the process as possible.

A strong relationship between the IPSASB and the IASB is important and is being developed at the staff level. Steps are being taken to ensure that when the IPSASB undertakes an IASB convergence project early in the process, agenda papers for IASB meetings can be obtained from staff in order to assist in the development and deliberation of projects.

At the Board level steps have been taken, including a meeting between the Chairs of the IASB and the IPSASB. In addition attendance of the IASB at IPSASB meetings as observers has improved and is considered a positive contribution.

### **Consistency between standards**

One issue that was raised in July 2007 relates to internal consistency between IPSASs. It is clear that over the long term all accounting standards the IPSASB approves should be internally consistent. This would be a natural outcome of any standard, particularly when considering a conceptual framework.

However, in the short run it is quite likely that some standards may be inconsistent with each other. While this is not an ideal situation it is a reflection of the fact that standard-setting is an evolutionary process and, therefore, changes in thinking and application may occur over time. When considering and approving any draft IPSAS the IPSASB would of course consider any related IPSASs and would seek, where possible, to attain internal consistency.

If the IPSASB does approve a new IPSAS that is inconsistent with an existing IPSAS, the expectation would be that a decision would be made regarding the existing IPSAS as to when it might reasonably be changed. Modifications may be made as consequential amendments of a new IPSAS, or the IPSASB may decide to defer such amendments to a future date and accept the inconsistency in the short run.

The IPSASB would document in the Basis for Conclusions the reasons for the inconsistency and the plan for addressing it. The existence of the inconsistency is not a reason not to approve a new IPSAS or to perpetuate an accounting treatment that is no longer considered appropriate.

Over the long run internal consistency is the peak condition. However, given the evolutionary nature of accounting standards, in the short term inconsistencies between IPSASs will inevitably exist as part of the natural standard-setting process.

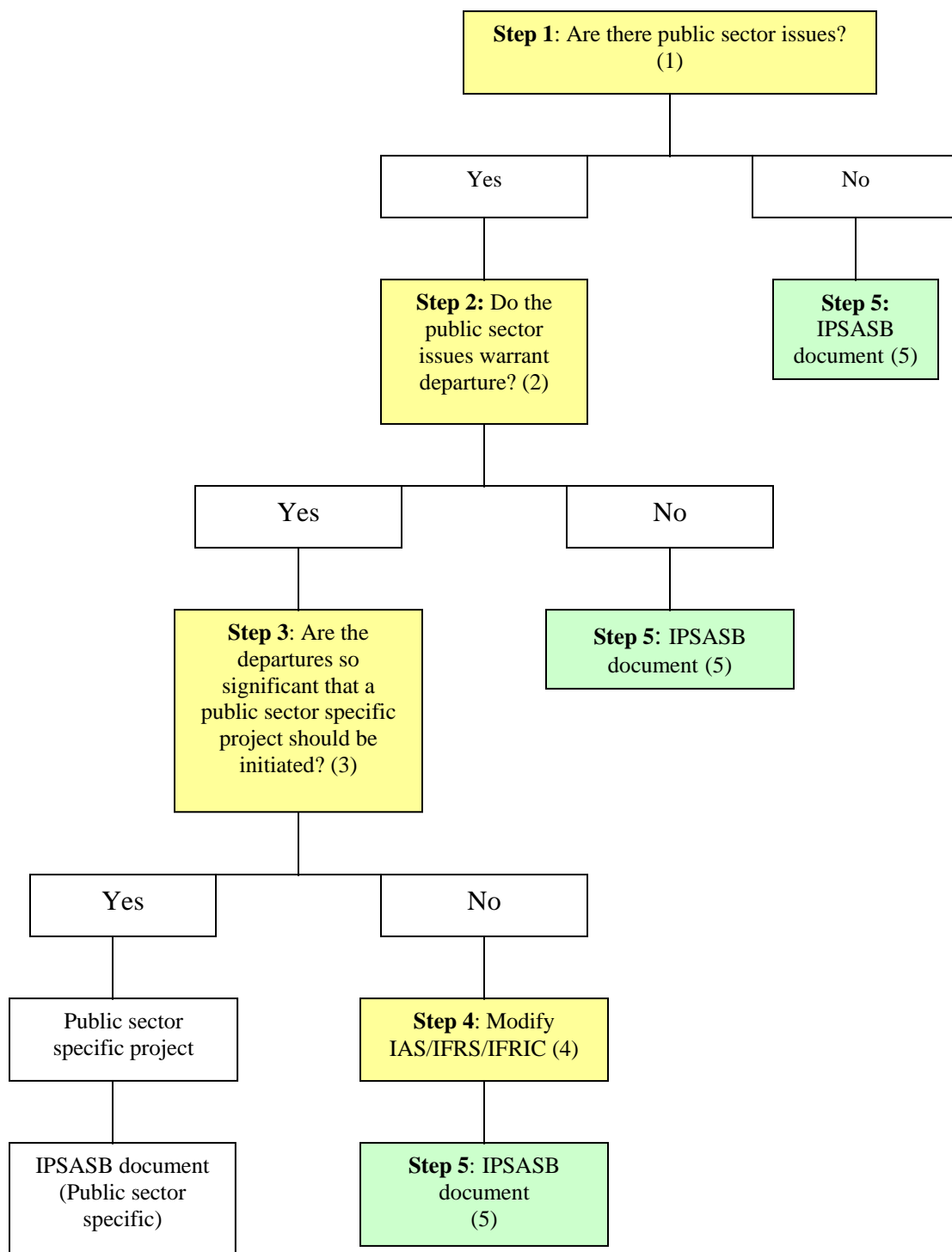
### **Conflict between IFRS and Statistical Treatment**

The IPSASB's international convergence policy encompasses both the IFRSs and statistical bases of reporting. In certain circumstances the IASB may issue an IFRS that proposes an accounting treatment that conflicts with a requirement of statistical reporting. In these circumstances the IPSASB will examine both treatments and will determine which treatment best serves the objectives of general purpose financial reporting in the public sector. When it develops the exposure draft of an IPSAS in these circumstances, the IPSASB will include a specific matter for comment to solicit the views of constituents on the matter. If the IPSASB concludes, in light of its own discussions and the views of constituents, that it is appropriate to vary from the wording of a related IFRS, it will explain the reasons for such variation in the Basis for Conclusions.

In general, while the statistical reporting basis could be a factor in decision making, it would not be usual that harmonization with the statistical basis would be the sole basis for a proposed departure from an IFRS.

Appendix: Assessing IASB Documents: Process Flow

**IASB project (Research report, IAS, IFRS, IFRIC etc)**



International  
Public Sector  
Accounting  
Standards  
Board

*International Public Sector Accounting Standards  
Board*

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Criteria for Modifying IASB Documents  
("Rules of the Road")

November 2007

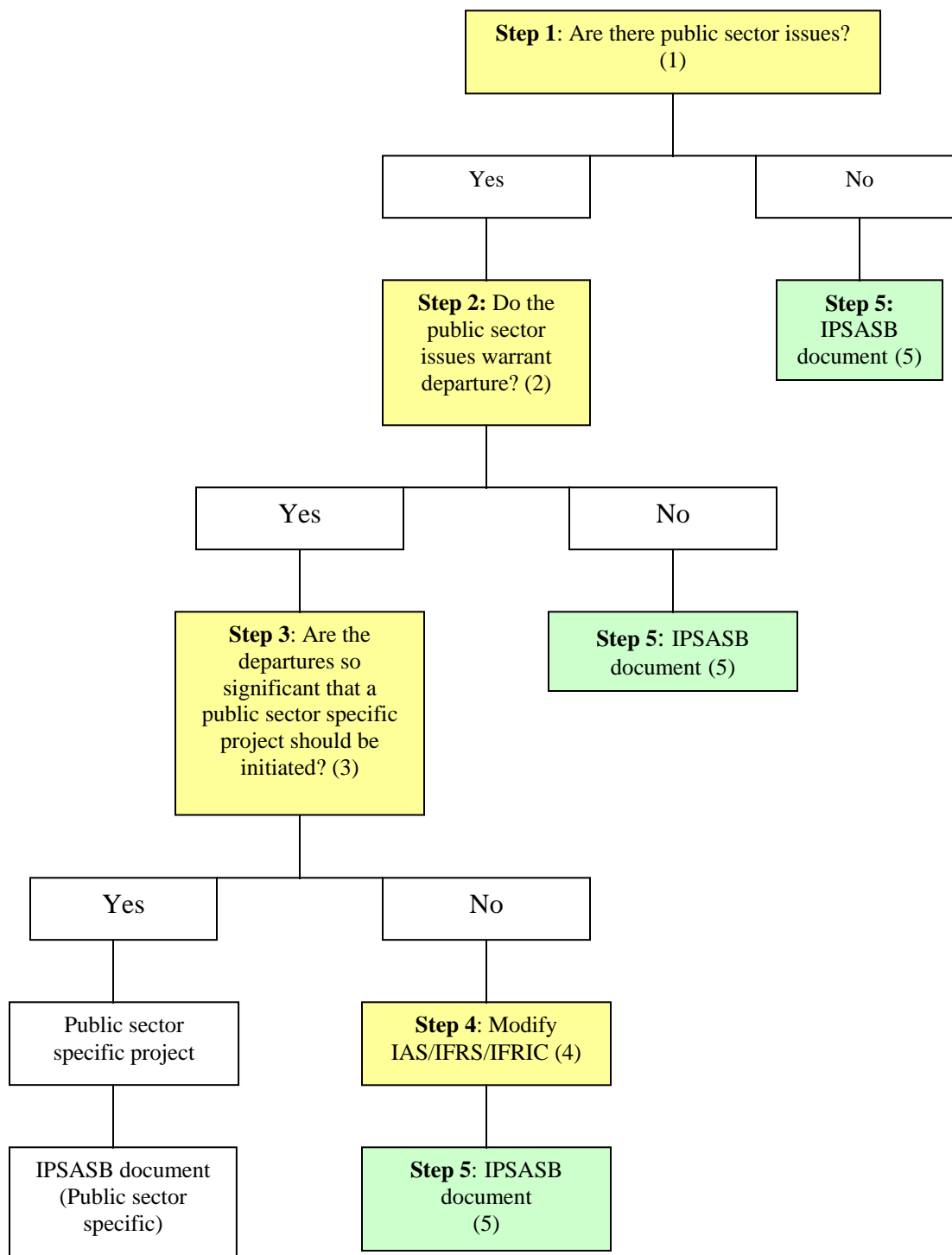


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## Assessing IASB Documents: Process Flow

**IASB project (Research report, IAS, IFRS, IFRIC etc)**



## ***Assessing IASB Documents: Process Flow***

*Before applying the rules within each step it is important to note that professional judgment will be required in applying the rules. It will be necessary at times to make an interpretation of the rules in order to make a decision. In such cases it is important that the IPSASB document the reasons for its decisions in the related Basis for Conclusions. In addition, an ongoing assessment of the relationship with other IPSASB standards particularly internal consistency between standards will be part of the process.*

### **Step 1: Are there public sector issues?**

#### **Rules 1:**

*The goal of applying these rules is to identify any public sector issues that might arise.*

In assessing whether there are public sector issues consider:

- Does the IASB document affect accounting policies?
- Does the IASB document affect principles or objectives of financial reporting?
- Does the IASB document affect transactions?

Items that might be considered include:

- Are there contributed/donated assets?
- Are there non cash generating activities?
- Are there accountability/stewardship differences?
- Are there sustainability issues?
- Are there differences related to the structure or control of assets?
- Internal consistency with existing IPSASs

*If the answer in step 1 as a result of applying the rules is that there are public sector issues, then proceed to step 2.*

*If the answer is that no public sector issues exist, then proceed directly to an IPSASB equivalent document where changes are made only to “public sectorize” the language and terminology (see step 5 rules).*

## **Step 2: Do the public sector issues warrant departure?**

### **Rules 2:**

*The goal of applying these rules is to determine if the public sector issues warrant a departure in recognition or measurement or in presentation or disclosure.*

In determining whether there is a public sector specific reason for a departure from an IASB document, the objectives of financial reporting in the public sector would be considered. Criteria to be assessed in determining whether the public sector issue warrants a departure from the related IASB document include:

1. Where applying the international accounting standards/interpretations would result in misleading financial statements i.e. would not meet the qualitative characteristics.
2. Where applying the international accounting standards/interpretations would result in a loss of accountability to stakeholders
3. Where the cost of applying the international accounting standards/interpretations exceeds the benefit. However, there is a rebuttable presumption that the overall costs of complying with standards will not differ in the private sector and the public sector.
4. Where applying the international accounting standards/interpretations would mean the objectives of public sector financial reporting would not be met.

*If the answer in step 2 as a result of applying the rules is that the public sector issues warrant a departure, then proceed to step 3.*

*If the answer is that the public sector issues do not warrant departure then proceed directly to an IPSASB equivalent document where changes are made only to “public sectorize” the language and terminology (see step 5 rules).*

### **Step 3: Are the departures so significant that a public sector specific project should be initiated?**

#### **Rules 3:**

*The goal of applying these rules is to determine if the public sector issues that warrant a departure from the related IASB document are so significant that a public sector specific project should be initiated.*

In assessing whether a public sector specific project should be initiated consider the nature of a particular transaction or entity and its materiality in the public sector. If the nature of the transaction is unique and/or the objectives of financial reporting would not be met because the transactions are of greater materiality or significance than in the private sector this might lead to the conclusion that a separate public sector specific project should be undertaken. This would normally be the case if, when assessing the standard as a whole this determination is made, rather than on a requirement by requirement basis within the standard.

Examples of this are the conceptual framework project where the objectives and users of government financial reports are so fundamentally different and have such a pervasive effect on the framework as a whole that the IPSASB initiated a new project. Likewise for service concession arrangements, the IASB IFRIC dealt only with the operator side of these transactions though the public sector often is involved in such transactions as the grantor – a significant public sector specific transaction. The lack of guidance on such a fundamental issue drove the IPSASB to approve a new project on service concessions arrangements for the public sector.

*If the answer in step 3 as a result of applying the rules is that the public sector departures are so significant that a public sector specific project should be initiated, a project brief would be prepared for the IPSASB's approval and the project would proceed along the standard setting due process.*

*If the departures are such that they are not so fundamental as to require a separate project but can be addressed within a converged IASB document, then proceed to step 4.*

## **Step 4: Modify IASB documents**

### **Rules 4:**

*The goal of applying these rules is to set parameters on the modifications that would be made to an IASB document to address public sector departures..*

When a decision has been made that public sector issues that warrant departure can be addressed within a converged IASB document with some modification, it is important to establish parameters for the extent of modification allowed. Modifications should be made only as they relate to the specific public sector issue that provoked the amendment. In that context, amendments will be limited and would result after applying the following rules:

#### ***Deletions***

As a general comment it would be expected that there would be few if any deletions to IASB documents in this situation.

- Deletions from, or other amendments to, an IASB standard will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.
- Deletions would occur to eliminate options in accounting treatments if one option is clearly inappropriate for the public sector
- No disclosures may be deleted – IFRS disclosures are considered minimum disclosures
- Examples would only be deleted if it is determined that their inclusion in the document would have a negative impact on applying a requirement in the public sector. Examples that are not applicable to the public sector but which not affect interpretation in the public sector would be left intact.

#### ***Additions:***

- Disclosure requirements may be added in order to better meet the objectives of public sector reporting.
- Public sector examples may be added. It would be expected that where a private sector example has been deleted because it is inappropriate to the public sector, a public sector example would be added. In cases where private sector examples are not deleted but are not applicable to the public sector, a public sector example may be added.
- Guidance may be added that provides public sector context.
- Recognition and measurement requirements may be added if doing so will result in the objectives of public sector financial reporting being better met.

## **Step 5: Issue IPSAS converged (to varying degrees) with IASB documents**

### **Rules 5:**

*The goal of applying these rules is to identify changes in style and terminology that are to be applied to all IPSASs.*

In all cases, when an IPSASB document is converged with a related IASB document changes will be made to the style and structure for preparing or modifying the related IPSASB document. In that context, amendments will be limited and would result after applying the following rules:

- the text and style of the IFRSs will be maintained as much as possible;
- The word “shall” rather than “should” is used for black letter requirements;
- Inclusion of a boxed rubric at the front of each IPSAS. The rubric to an IPSAS identifies the material that constitutes the IPSAS, and the documents that provide the context in which the IPSAS should be read;
- Deletion of unnecessary definitions in certain IPSASs;
- Replacing cross-referencing to IAS/IFRS for which an equivalent IPSAS has not been issued with “the relevant international or national accounting standard dealing with [specific topic]”;
- Changes in terminology e.g. replacing “business” with “entity”;
- Describing the effective date of the IPSAS in the same manner as in the equivalent IAS;
- Appendices form part of an IPSAS to which they belong;
- Including Amendments to Other Pronouncements as an appendix to the IPSAS. The appendix identifies amendments to other IPSASs that arise as a consequence of updating the IPSAS;
- Renaming certain non-authoritative Appendices (such as Illustrative Examples) as Implementation Guidance, which accompanies but does not form part of an IPSAS; and
- Including a Basis for Conclusions for each IPSAS that accompanies but does not form part of an IPSAS. The Basis for Conclusion focuses on the reasons why the IPSASB decided that certain requirements in the IPSAS should depart from the equivalent IAS. These reasons should be set out in detail the public sector issue that the IPSASB identified and the rationale for allowing a departure from the related IASB document.