



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Government Business Enterprises (GBEs)

- 1.1. This project will explore issues with the current definition of government business enterprises and will consider whether the current accounting requirements are adequate.
- 1.2. The IPSASB has defined Government Business Enterprises (GBEs) as an entity that has all the following characteristics:
 - a) Is an entity with the power to contract in its own name;
 - b) Has been assigned the financial and operational authority to carry on a business;
 - c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
 - d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
 - e) Is controlled by a public sector entity.
- 1.3. The *Preface to International Public Sector Accounting Standards* states that “GBEs apply International Financial Reporting Standards (IFRS), which are issued by the International Accounting Standards Board (IASB)”. This reflects the view that GBEs are comparable with commercially-oriented private sector entities operating in the same economic sectors and therefore GBEs should apply the same standards as those private sector entities.
- 1.4. At whole-of government level the financial performance of GBEs can have a significant impact on consolidated financial performance and financial position. The global financial crisis has reinforced the significance of GBEs, particularly public finance corporations (in statistical accounting terminology) and the need for information that better meets the accountability objective of financial reporting. This issue was highlighted in the joint work with the International Monetary Fund on reporting governmental interventions during the financial crisis.
- 1.5. In 2008 and 2009 a number of Members expressed reservations about the robustness of the current approach to GBEs. The position of GBEs was also discussed at one of the early IASB-IPSASB Liaison meetings. Following discussion at the IPSASB's Zurich meeting in October 2008 it was decided not to activate a project on GBEs on the grounds that there were more pressing priorities.

2. Project Rationale and Objectives

- 2.1. The objective of the project would be to explore a number of issues raised with respect to GBEs and, if necessary, modify the current guidance to address these issues.

International Guidance on this Topic

- 2.2. The IASB does not specifically address GBEs, though acknowledge that the accounting standards developed by the IASB are applied by GBEs.

National Guidance on this Topic

- 2.3. Many National Standards Setters (NSS) have guidance on GBEs. While there are many similarities in definitions there are also differences in the definitions as well as in the accounting requirements. The project development will include identification and consideration of authoritative guidance in IPSASB Member's and other jurisdictions, as appropriate.

Issues identified

- 2.4. It has been noted that the definition of GBEs includes not just profit seeking entities, but those whose financial objective is full cost-recovery. For these latter entities it may be questionable whether the requirements of IFRS are appropriate in areas such as impairment.
- 2.5. Other questions raised in relation to GBEs include whether the emerging emphasis on accountability in the conceptual framework project should lead the IPSASB to take a more active role in the monitoring and development of financial reporting requirements for GBEs. In particular it has been suggested that some additional requirements and guidance might be necessary for reporting non-financial information for GBEs.
- 2.6. Further issues identified include whether the control criterion in the definition is appropriate and consistency with statistical accounting bases.

Objectives to be achieved

- 2.7. The ultimate objective of the project is to assess both the current definition of GBEs and whether the current accounting treatment is appropriate. As a result of this work amendments to the IPSASB Handbook may be required.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.8. As noted, this project was considered previously but was not initiated since the projects to develop a public sector conceptual framework and those to achieve substantial convergence with IFRSs were considered higher priority. Now that substantial convergence has been achieved and the public sector conceptual

framework has progressed significantly the issues identified in this project are once again being raised as a higher priority. GBEs are a public sector specific issue and so this project would correlate to the IPSASB's strategic theme of addressing public sector critical projects.

ii. Link to IFAC Strategic Plan

- 2.9. The IFAC Strategic Plan for 2011–2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Considering the issues around GBEs supports both of these strategies as the IPSASB addresses this public sector critical issue.

3. Outline of the Project

(a) Project Scope

- 3.1. The scope of this project is to assess the existing definition and accounting treatment of GBEs and determine whether any changes to the current requirements are needed. In addition there is a need to consider whether guidelines for the disclosure of non-financial information by GBEs are needed in light of the enhanced accountability focus in the public sector.

(b) Major Problems and Key Issues that Should be Addressed

Key Issue #1— Aspects of the Definition of GBEs

- 3.2. All GBEs are currently directed to apply IFRS rather than IPSAS on the basis that IFRS is a more appropriate set of standards for such entities. By definition, GBEs may be purely commercial enterprises within the public sector i.e. entities that are profit oriented. However, the definition also includes GBEs that aim to cover costs, not necessarily make a profit. For these latter entities it may be questionable whether the requirements of IFRS are appropriate in areas such as impairment, where the cash-flow emphasis of IAS 36, *Impairment of Assets*, might lead to potentially misleading carrying values. An entity that does not generate net cash flows would have assets carried at nil, which would not achieve the objectives of financial reporting in the public sector. One option might be for definition to refer to entities which aim to generate a commercial return only, so that it would no longer include entities that aim to just achieve full cost recovery. However, narrowing the definition needs careful consideration within the due process and there are other ramifications that could result.
- 3.3. Certain government controlled entities might be generally profit-seeking, but be required to provide some services to citizens on terms that require government transfers for the entities to continue as going concerns. Such requirements are known as “community service obligations” in some jurisdictions. It is not fully clear whether such entities meet the current definition of a GBE.

- 3.4. In terms of the of criteria to apply in determining whether something meets the definition of a GBE, some have expressed concern about the extent of professional judgment that is required and questioned whether additional guidance is needed. For example, if an entity has 85% of its activities break even or slightly profitable (either because of completion or government policy), with the remaining 15% being a community service obligation that requires continuing government funding for the entity to remain a going concern, is it a GBE? What about an entity that is genuinely trying to generate profits, but has been forced to run down equity by several years of losses in bad trading conditions?
- 3.5. Finally, during the global financial crisis governments established a number of approaches to addressing interventions. Work done throughout the IPSASB/IMF joint task force indicated that current IPSASs provide adequate guidance for all types of interventions. However, the issue has been raised of the risk of governments setting up special purpose vehicles (SPVs) to deal with their response to the crisis. Such entities could test the definitions of the “public sector” and GBEs. The project may need to consider the definition of a GBE in light of the results of the joint task force work.

Key Issue #2—Controlled by a public sector entity

- 3.6. Some concern has been raised about the appropriateness of the fifth criterion of the definition – that the GBE must be controlled by a public sector entity. The sense is that it is the definition of the public sector reporting entity that determines what is within the bounds of the reporting entity. Once organizations are determined to be within the entity, then the other criteria are applied to determine whether an organization is a GBE. It may therefore be that the control criterion is not needed to be applied to determine if an organization is a GBE.
- 3.7. This criterion might be modified in light of developments in the Conceptual Framework relating to the group reporting entity. This would need to be addressed in the project particularly as the current thinking is trending towards a movement away from the notion of control.

Key Issue #3— Is the current approach to consolidation of GBEs appropriate?

- 3.8. Under IPSASB, GBEs apply IFRS, and other public entities apply IPSASs. Though IPSASs are substantially converged with IFRSs, there are differences in the standards, many of them to reflect public sector specific circumstances. This means that the accounting policies applied by GBEs may be different from those applied by the controlling government. Under IPSAS 6, the controlling government would consolidate GBEs using uniform accounting policies for like transactions and other events, which will result in consolidation adjustments to conform the accounting policies of GBEs to those of the controlling government.
- 3.9. There are mixed views on the appropriateness of this and some have indicated the issue needs to be addressed.

Key Issue #4— Accountability

- 3.10. One of the significant differences emerging between the proposed IPSASB conceptual framework and the revised IASB framework is the emphasis on accountability. For the IPSASB this means that accountability has greater prominence and the capacity to address non-financial reporting within the framework is enhanced. As a result, it may be that in the future some additional disclosure requirements or other guidance may be required for GBEs, especially in regard to non-financial reporting, to address the accountability aspects of GBE activities.

Key Issue #5—Statistical Basis

- 3.11. The statistical community (IMF and Eurostat) have noted some concerns about the differences between the definition of GBEs in IPSAS 1 and public corporations in statistical reporting guidelines such as the Government Finance Statistics Manual 2001. These differences, as well as the different approach to control in statistical accounting, could be problematic. The project would need to explore further existing differences as well as considering the impact of any changes in the definition for accounting purposes.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 GBEs currently apply IFRSs. Questions about whether it is appropriate for the IASB to, in effect, set standards for GBEs since they are public sector entities and may have different objectives than commercial enterprises mean that it is necessary to liaise with the IASB about GBEs to ensure that the objectives of financial reporting are satisfied through applying IFRSs.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 Currently the IPSASs do not apply to GBEs. Each IPSAS includes a scope exclusion for GBEs. If the research and analysis undertaken on GBEs results in a decision that IPSASs may be more appropriate for GBEs, consideration of whether the existing IPSASs need to be amended in any regard to specifically address GBEs needs to be considered. In developing the existing IPSASs the characteristics of GBEs were not considered. There may be a need to specifically consider these if bringing them into the scope of the IPSASs.

(c) Other—Government Finance Statistics

- 4.3 One aspect of the IPSASB's strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. As highlighted any changes in the definition and accounting treatment will need to be considered in the context of their impact on the statistical basis of accounting.

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

(b) Project timetable

Major Project Milestones	Expected Completion
Present Project Brief	June 2011
Discussion of issues and development of an Exposure Draft (ED)	March 2012
Approve ED (4 month comment period)	March 2012
Review of responses to ED and development of amendments to IPSASs	September 2012
Approve amendments to IPSASs	December 2012

(c) Project output

- 5.3 The initial output will be an Exposure Draft. The ultimate output may be revisions to existing IPSASs.

6. Resources Required

(a) Task Force/Subcommittee

- 6.1 A Task Based Group will assist in exploring the issues.

(b) Staff

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 Factors that might add to the complexity and length of the project include:
- a) The wide range of GBEs that exist in the public sector.
 - b) The interaction with the IASB.
 - c) The interaction between this project and IPSAS 6 specifically in terms of how GBEs should be consolidated.
 - d) The interaction between this project and the development of the Conceptual Framework.

7. Important Sources of Information that Address the Matter being Proposed

7.1 Potential sources of information regarding GBEs include:

- a) National Standard Setters guidance on GBEs.
- b) The Government Finance Statistics Manual (2001).
- c) The System of National Accounts (SNA) 2008.
- d) ESA 95