



International  
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of Accountants

# International Public Sector Accounting Standards Board

## Agenda Item: 9 First-time Adoption of Accrual IPSASs

Anne Owuor  
Jeanine Poggiolini  
Mariano D'Amore  
Rachid El Bejjet

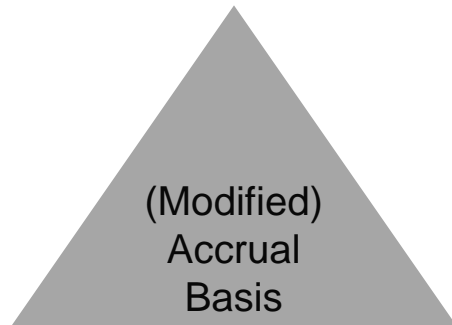
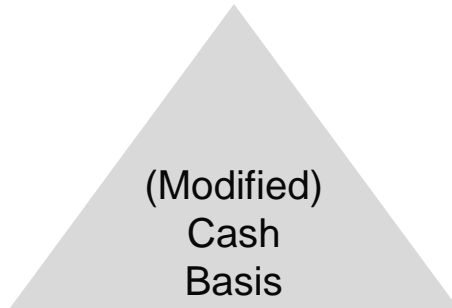
Staff: Jens Heiling

# Objectives of the Session

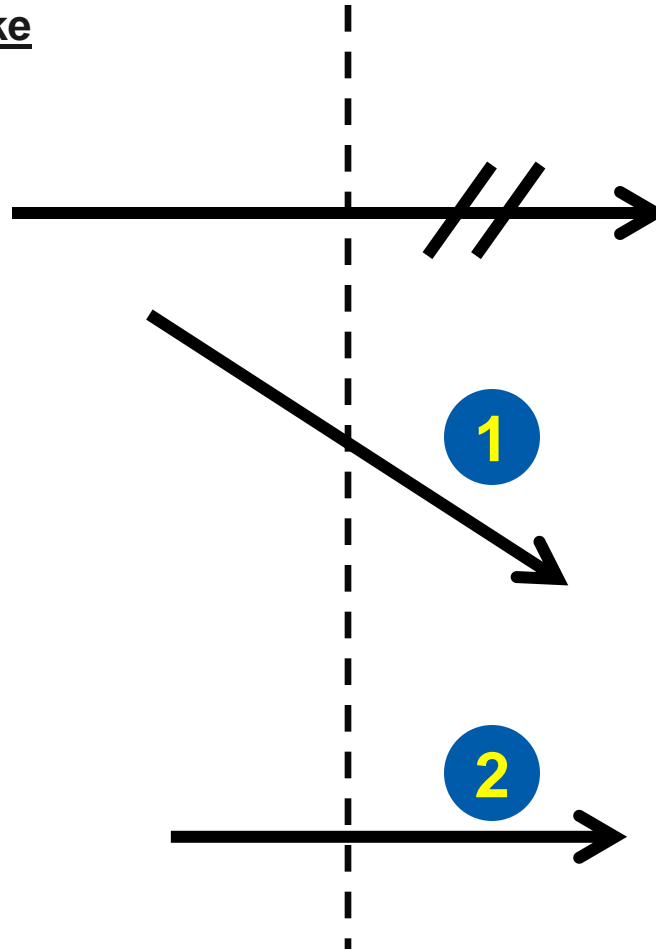
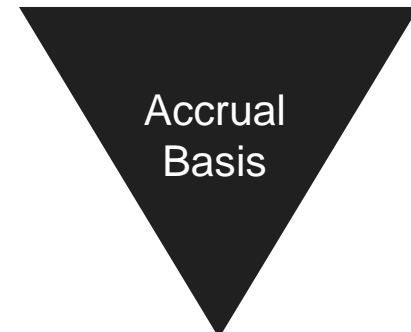
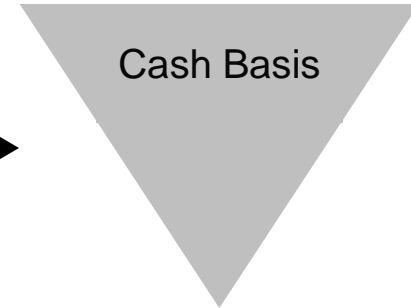
1. To **discuss** selected **current issues** and issues arising from an analysis of existing requirements of IPSASs and IFRS 1.
2. To **identify a suitable approach** for the development of an IPSAS on first-time adoption of accrual IPSASs.

# 1. Scope of the Standard: Transition Scenarios

## Non-IPSAS or IPSAS-like



## IPSAS



# 1. Scope of the Standard: Questions for the IPSASB

Staff requests the Board to **confirm its view regarding the scope of the project**. Staff is of the view that the project should be limited to the adoption of accrual IPSASs rather than the adoption of accrual accounting in general.

### 3. Possible approaches for a standard on first-time adoption of IPSASs: Questions for the IPSASB

#### Approach to be used in the development of transitional provisions for the first time adoption of IPSASs:

Staff notes that the Board's decision regarding one of the three approaches will be of major importance for the whole project and will therefore be a **core decision** to take.

Staff asks the Board to consider which of the outlined approaches should be used, or whether additional options should be explored:

- **Approach 1 – Separate transitional provisions developed for scenario 1 and scenario 2**
- **Approach 2 – Develop appropriate transitional arrangements for the first time adoption of IPSASs, no distinction between scenario 1 and 2**
- **Approach 3 – Convergence approach**

### 3. Possible approaches for a standard on first-time adoption of IPSASs

| Approach   | Sub-options               | Starting Point  | Rules of the Road Analysis | Likely consequences for development of CP/ED   |
|--|---------------------------|---|----------------------------|--|
| <b>No. 1:<br/>Develop separate transitional arrangements</b>   | split in two sub-projects | IPSAS Transitional Provisions/IFRS 1  | Possible yes (scenario 2)  | Prepare CP for scenario 1 and an ED for scenario 2. <u>OR</u> Either prepare a CP or an ED |
|  | not split in sub-projects | IPSAS Transitional Provisions/IFRS 1  | Yes (scenario 2)           | Either prepare a CP or an ED   |
| <b>No. 2:<br/>Develop appropriate transitional arrangements for the first time adoption of IPSASs, no distinction between scenario 1 and 2</b> |                           | Use IPSAS and IFRS 1 transitional provisions, identify elements that can be used to develop appropriate transitional provisions for the first time adoption of IPSASs (irrespective of the basis of accounting previously applied). | Likely not                 | Prepare a CP (or ED)   |
| <b>No. 3:<br/>Convergence approach</b>   |                           | Solely IFRS 1   | Yes                        | Prepare an ED  |

### 3. Type of Document to be Developed: Questions for the IPSASB

#### **Consultation or Exposure Draft**

Staff requests the Board's view on what type of document should be developed as the next step in the project.

### 3. Next Steps: Questions for the IPSASB

| Accounting Issue related to the First-time Adoption of Accrual IPSASs | Public sector specific issues to consider with respect to scenario 1 | Public sector specific issues to consider with respect to scenario 2 | Treatment in IPSASs (if available) | Treatment in IFRSs (if applicable) | Conclusions for a Standard on the First-time Adoption of accrual IPSASs |
|---|--|--|------------------------------------|------------------------------------|---|
| ...   | ...  | ...  | ...                                | ...                                | ...   |

Staff would like to ask the Board whether it finds the outlined table **useful** and whether staff should **continue to deepen the analysis on this basis**. If the Board considers this approach as not useful, staff would like to ask the Board for direction how to develop the project going forward.



## 4. Linkages of First-time Adoption of Accrual IPSASs and Alignment of IPSASs and Public Sector Statistical Reporting Guidance

**Staff identified the following options for integration of GFS alignment considerations into first-time adoption:**

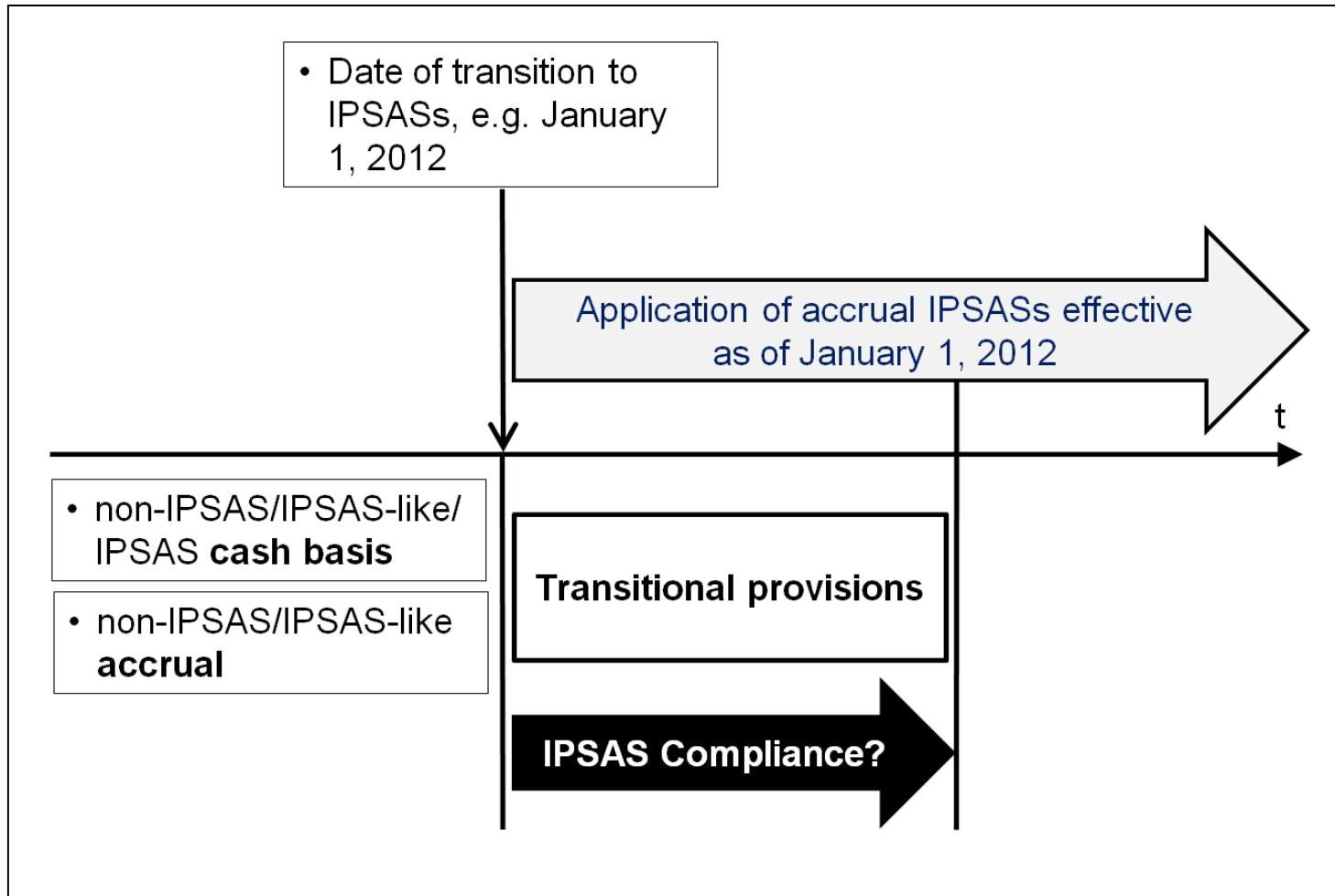
- (a) *In the first-time adoption standard:*
  - (i) Include *encouragement* for entities to choose GFS aligned policy options within IPSASs;
  - (ii) Include *narrative* within the standard that notes/describes the alignment issue; or
  - (iii) Include (i) application/implementation guidance that explains alignment issues and identifies GFS aligned policy options in IPSASs; or (ii) narrative incorporated into IPSAS 22 that includes coverage of GFS aligned policy options in IPSASs.
- (b) *In IPSAS 22, include application/implementation guidance on (a) choice of GFS aligned policy options in IPSASs; and, (b) first time adoption approaches that align financial accounting with GFS accounting, as much as possible.*
- (c) *Address the alignment issue in Study 14.*

## 4. Integration of GFS alignment considerations into first-time adoption: Questions for the IPSASB

Staff asks the Board whether alignment issues should be addressed by **narrative (option A.2)** or **application/implementation guidance (option A.3(i))** included in a standard on first-time adoption.

*The Board might consider that these options could be addressed within a Consultation Paper on Alignment which will possibly be issued in the second half of 2012.*

## 5.a. IPSAS Compliance in Case of Usage of Transitional Provisions



## 5.a. IPSAS Compliance in Case of Usage of Transitional Provisions: Questions for the IPSASB

As this issue is of **major importance** for the understanding of the IPSASB's approach to first-time adoption of accrual IPSASs, staff asks the Board to provide its views on whether transitional provisions which allow a period of time to comply with the requirements of the Standards, affects an entity's compliance with IPSASs during that period.

Depending on the Board's response, the use of the existing transitional provisions in the IPSASs may be limited. If the use of such transitional provisions would not result in compliance, are there any other alternatives staff could consider which might be useful (particularly those entities in scenario 1)?

## 5.b. Opening IPSAS Statement of Financial Position and Comparative Information: Questions for the IPSASB

Staff requests the Board's initial views on whether an “**opening statement of financial position approach**”, as outlined in IFRS 1, should be explored.

If **yes**, would this **depend** on the **basis of accounting** previously applied?

## 5.c. Future Approach to Transitional Provisions under IPSASs: Questions for the IPSASB

- Transitional provisions in IFRSs (other than those provided by IFRS 1) only apply to changes in accounting policies made by an entity that already uses IFRSs (cf. IFRS 1.9).
- Thus, the question arises whether IPSASs should follow the same approach than IFRSs.
- With a standard on first-time adoption of accrual IPSASs the current transitional provisions under IPSASs will likely be moved to this standard.
- ➔ Therefore, staff recommends to follow the same approach towards transitional provisions than IFRSs does, i.e. to retain in IPSASs only those transitional provisions which apply to changes in accounting policies for entities which are already IPSAS-compliant.

Staff asks the Board to **confirm** its view.

## 6. Next Steps: Further Questions to the IPSASB

Irrespective of the approach the IPSASB is going to choose the TBG would like to explore further where the TBG should set its **priorities**.

1. Which are areas with respect to recognition of assets and liabilities the TBG should focus on under both scenarios?
2. Which are areas with respect to measurement of assets and liabilities the TBG should focus on under both scenarios?
3. Are there any other considerations the IPSASB wants the TBG to focus on (e.g. the requirement to prepare and present consolidated financial statements, to do segment reporting on first-time adoption of accrual IPSASs, to review and possibly revise the existing transitional provisions)?
4. What are factors that determine the importance of issues related to the first-time adoption of accrual IPSASs (e.g. complexity of a transaction, availability of information, costs related to generate information, user needs etc)?
5. How should the project proceed with the existing transitional provisions under IPSASs?



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# Appendix



### 3. Advantages/Disadvantages of ED-only- vs. CP-first- Approach: Exposure Draft

| Moving straight to an Exposure Draft (with an exposure period of 6 months)  |   |
|---|---|
| <i>Advantages</i>   | <i>Disadvantages</i>  |
| <ul style="list-style-type: none"><li>• Standard on First-time Adoption of Accrual IPSASs will presumably be published end of 2013</li><li>• Countries moving towards IPSASs in the next few years can expect to have appropriate guidance based on a standard by end of 2013</li><li>• An exposure period of 6 months might compensate for not having a CP in advance</li><li>• The quality of financial statements on first-time adoption of accrual IPSASs might increase earlier.</li></ul> | <ul style="list-style-type: none"><li>• Time pressure for the TBG and the Board</li><li>• Constituents might not have adequate time to reflect public sector issues involved with the transition to accrual IPSASs as well as to consider the magnitude of such a transition</li><li>• Public-sector specific issues and requirements might not be explored sufficiently in detail</li><li>• In case that the transitional provisions for entities which already apply the accrual basis and now move to accrual IPSASs will be tightened, there could be an incentive to adopt accrual IPSASs before a standard on first-time adoption will be effective. For example, in this situation entities might not tend to present comparative information.</li></ul> |

### 3. Advantages/Disadvantages of ED-only- vs. CP-first- Approach: Consultation Paper

| Issuing a Consultation Paper prior to an Exposure Draft  |  |
|--|--|
| <i>Advantages</i>  | <i>Disadvantages</i>   |
| <ul style="list-style-type: none"><li>• Board and constituents will have sufficient time to think of the public sector specific issues involved with first-time adoption</li><li>• The magnitude of a transition to accrual IPSASs for a public sector entity could better be considered by the Board as well as by the constituents than just by one exposure period</li><li>• Having two times the opportunity to provide views might lead to the fact that more constituents will respond and country-specific views might get better considered.</li></ul> | <ul style="list-style-type: none"><li>• Standard on First-time Adoption of Accrual IPSASs will presumably not be published before end of 2014</li><li>• Entities moving towards accrual IPSASs in the next few years might miss appropriate guidance</li><li>• Entities might delay their decision to adopt accrual IPSASs as long as not standard on first-time adoption of accrual IPSASs is available</li><li>• The quality of first-time adoption to accrual IPSASs will increase at a later point in time</li></ul> |