



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor  
Tel: (212) 286-9344  
New York, New York 10017  
Fax: (212) 286-9570  
Internet: <http://www.ifac.org>

# Agenda Item 9

---

**Date:** February 22, 2012  
**Memo to:** Members of the IPSASB  
**From:** Jens Heiling  
**Subject:** First-time Adoption of Accrual IPSASs: Issues Paper

---

## Objectives of 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.

## Agenda Material

- 9.1 Project Brief “First-time Adoption of IPSASs”
- 9.2 Table of Transitional Provisions in IPSASs

## Background

Currently, there is no single IPSAS that addresses issues arising from first-time adoption of IPSASs. As a **standard** in this area will help in the implementation of accrual IPSASs, it has become a high priority of the Board to commence a project on this topic. The project is consistent with the IPSASBs strategic priority of developing requirements and guidance on public sector specific issues. In June 2011, the IPSASB has approved a Project Brief, First-Time Adoption of IPSASs (see Agenda Material 9.1).

## Members of Task-based Group

- Anne Owuor, Kenya
- Jeanine Poggiolini, South Africa
- Mariano D’Amore, Italy
- Rachid El Bejjat, Morocco

### *Associated Members:*

- John Verrinder, Eurostat
- Thomas Müller-Marqués Berger, Germany

## Current Issues

### 1. Scope

1. The project will consider issues related to public sector entities that are moving from an accrual basis to accrual IPSASs but it will also consider public sector entities that are moving from a cash basis, modified cash basis or partial (modified) accrual basis of accounting, to full accrual IPSASs. Full accrual IPSAS means that the entity applies all IPSASs which are effective at the date of transition. It could also be possible that an entity applies IPSASs but the entity is not fully in compliance with all IPSASs according to IPSAS 1.28. This situation should here be called "IPSAS-like".
2. The following figure 1 depicts the possible transition scenarios:

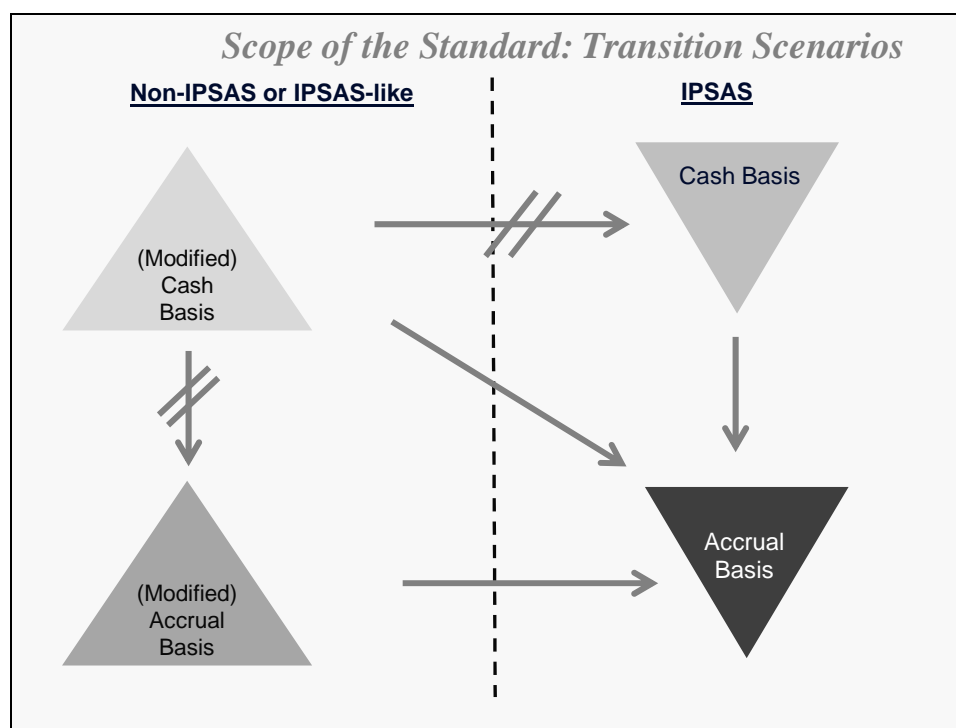


Figure 1: Transition Scenarios

3. It is not intended that the project will deal with a transition from a (modified) non-IPSAS or IPSAS-like cash basis towards the IPSAS cash basis (see the Project Brief).
4. Furthermore, a standard on First-time Adoption of IPSASs will not deal with a situation where a public sector entity moves from a (modified) cash non-IPSAS or (modified) non-IPSAS accrual basis to an IPSAS-like situation (see figure 1). IPSAS-like could be a situation where the IPSASs have been modified and adapted to the national context. National deviations from IPSASs could vary to a large extent. With regard to IPSAS 1.28 these entities are not fully in compliance with IPSASs. It will be up to the National Standard Setters (NSS) to deal with such a situation.

5. To sum up, the project intends to deal with two transition scenarios:
  1. transition from the (modified) cash basis (non-IPSAS, IPSAS) to the IPSAS accrual basis (scenario 1)
  2. transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis (scenario 2)
6. Because of IPSAS 1.28, the standard will not deal with the transition from a non-IPSAS (modified) accrual/cash basis to an IPSAS-like accrual basis.

**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.

**2. Analysis of Existing Requirements under IPSASs as well as IFRS 1**

**a. Introduction**

7. This section will summarize an analysis of the current transitional provisions and other guidance as provided by the IPSASB as well as the existing requirements of IFRS 1. This section will also contrast the existing transitional provisions within IPSASs and IFRS 1 at a high level and will identify principle issues that the Board needs to address at the outset of the project.

**b. Analysis of the Current Transitional Provisions and other Guidance as Provided by the IPSASB**

*Analysis of the transitional provisions under IPSASs*

8. Agenda Paper 9.2 provides an overview of the current transitional provisions in IPSASs. The table shows whether the transitional provisions in an IPSAS are an IPSAS-specific paragraph or whether they are based on IAS/IFRS. The last column divides the transitional provisions in (A) provisions for entities which are in process of adopting accrual IPSASs (could be either scenario 1 or scenario 2) and (B) provisions for entities that have adopted accrual IPSASs and are now applying a revised or new accrual IPSAS, i.e. changes in accounting policies.
9. Unlike IPSASs, 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).
10. The analysis shows that not all IPSASs contain transitional provisions. E.g. IPSAS 18, Segment Reporting does not provide transitional provisions. Thus, an entity which adopts accrual accounting in accordance with IPSASs for the first time has to apply IPSAS 18 from the date of first-time adoption.
11. In some cases IPSASs provide transitional provisions specifically for entities that adopt accrual accounting in accordance with IPSASs for the first time, i.e. for entities which had previously applied the cash basis of accounting (e.g. IPSAS 13). The transitional provisions in IPSASs do not always differ specifically between a transition from the cash basis to the IPSAS accrual basis (scenario 1) and a transition from the non-IPSAS or IPSAS-like (modified) accrual basis to the IPSAS accrual basis (scenario 2).
12. Furthermore, a lack of the consistent use of the terms 'transitional provisions' and 'first time adoption' has been identified (see for example IPSAS 1.151 ff. and IPSAS 25.166 ff.).
13. In the following, staff outlines some of the major transitional provisions as provided by IPSASs:
14. **IPSAS 1.151** states that IPSAS 1 shall be applied from the date of first adoption of the Standard, except in relation to items that have not been recognized as a result of transitional provisions

under another IPSAS, i.e. transitional provisions of other IPSASs regarding the recognition of items supersede the provisions in IPSAS 1. The same holds true with regard to the disclosure provisions of IPSAS 1.

15. IPSAS 1.151 provides that comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. In contrast, IFRS 1 provides retrospective application of IFRSs with some exceptions. IFRS 1.21 requires that an entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.
16. According to **IPSAS 6.65** entities are not required to comply with the requirement in par. 45 of IPSAS 6 concerning the elimination of balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs. This is an IPSAS-specific paragraph and there is no comparable provision under IFRSs. This provision gives relief to entities; but they are still required to present consolidated financial statement at first-time adoption of IPSASs.
17. **IPSAS 8.65** states that where the proportionate consolidation treatment set out in this Standard is adopted, venturers are not required to eliminate balances and transactions between themselves, their controlled entities, and entities that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs.
18. In analogy to IPSAS 1, transitional provisions of other IPSASs supersede the provisions of IPSAS 13 with respect to recognized leased assets (cf. **IPSAS 13.79**). The provisions under IPSAS 13 differ between transitional provisions where an entity adopts accrual accounting in accordance with IPSASs for the first-time (cf. IPSAS 13.79), transitional provisions for entities that have already adopted the accrual basis of accounting (cf. IPSAS 13.81), transitional provisions for entities that has previously applied IPSAS 13 (2001) or (2006) respectively (cf. IPSAS 13.83 and 13.84A).
19. According to **IPSAS 17.95** entities are not required to recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs. **IPSAS 17.96** provides that an entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize property, plant, and equipment at cost or fair value. For items of property, plant, and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition. IPSAS 17.99 clarifies that when an entity initially recognizes an item of PP&E at cost then also accumulated depreciation and any accumulated depreciation and any accumulated impairment losses that relate to that item shall be recognized, as if it had always applied those accounting policies (retrospective application). In contrast to that IFRS 1.D5 offers the deemed cost exemption. Here, an entity may elect to measure an item of PP&E at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. While IPSAS 17 allows the use of deemed cost, it is more restrictive than IFRS 1. IPSAS 17 allows the use of fair value if the acquisition cost is not known, but fair value should be determined at the acquisition date of the asset. This approach assumes that the date of acquisition is known or could be determined. IFRS 1 however allows the use of fair value at the date of adopting IFRSs.
20. According to **IPSAS 23.116** entities are not required to change their accounting policies in respect of the recognition and measurement of *taxation revenue* for reporting periods beginning on a date within *five years* following the date of first adoption of this Standard. IPSAS 23.117 provides that entities are not required to change their accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions, *other than taxation revenue*, for reporting periods beginning on a date within *three years* following the date of first adoption of this

Standard. Both paragraphs are IPSAS-specific as there is no comparable standard to IPSAS 23 in IFRSs.

21. **IPSAS 24** does not provide transitional provisions. Therefore, an entity is required to present budget information in its first IPSAS financial statements.
22. **IPSAS 25.167** states that if the initial liability determined in accordance with IPSAS 25.166 and on first-time adoption of IPSAS 25 is more or less than the liability that would have been recognized at the same date under the entity's previous accounting policy, the entity shall recognize that increase/decrease in opening accumulated surpluses or deficits. This is also an IPSAS-specific paragraph and has no comparable paragraph under IFRSs. IPSAS 25.171 provides that in the first year of adoption of IPSAS 25, an entity is not required to provide comparative information. This regulation conflicts with IFRS 1.21 ff. Also the question arises why only IPSAS 25 provides this exception.

#### *Analysis of other guidance on the First-time Adoption of Accrual IPSASs*

##### *a) Preface to IPSASs in the Handbook*

23. Paras. 21 to 25 of the Preface to IPSASs in the annual Handbook of International Public Sector Accounting Pronouncements provide some guidance on "Moving from the Cash Basis to the Accrual Basis". The explanations there put the transitional provisions in context and summarize the requirements and consequences of the first-time adoption of IPSASs. Par. 22 of the Preface to International Public Sector Accounting Standards states that an entity "could choose to apply any transitional provisions in an individual accrual based IPSAS". While some transitional provisions are optional, e.g. those that permit time to comply with certain requirements of a Standard are optional, and others mandatory, e.g. those that outline whether retrospective or prospective application is required, the intention of this choice may be unclear. With respect to guidance in the Preface to IPSASs in the Handbook the question arises whether the Preface is the right medium within the IPSASB's pronouncements to include guidance on the first-time adoption of IPSASs.

##### *b) Study 14*

24. Currently, Study 14, Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities, 3rd Ed., Jan. 2011, is the main reference points for IPSASB's constituents to move from a cash-based accounting system to accrual IPSASs. According to its Foreword, Study 14 was prepared to meet the need for guidance on the transition from the cash to the accrual basis but may also be useful for entities currently reporting on an accrual basis and considering the adoption of accrual IPSASs. Study 14 states that it does not establish new or additional authoritative requirements and should not be considered as a substitute for the IPSASs themselves. The intention of Study 14 is neither to provide a summary/guidance of the transitional provisions under IPSASs nor to even set transitional provisions.
25. Therefore, there seems to be no specific guidance provided about an opening IPSAS statement of financial position, or how it may be determined, within the suite of IPSASB's pronouncements.

##### **c. High-level Analysis of IFRS 1**

26. Staff has performed a high-level analysis of the requirements of IFRS 1. The following table presents a first analysis of IFRS 1 and the respective treatment of the issue in IPSASs.

Requirements of IFRS 1	Issues/Treatment under IPSASs
<p><b>IFRS 1.3</b> IFRS 1.3 clarifies when an entity presents its first IFRS financial statements. According to IFRS 1.3 an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. IFRS 1.3 also illustrates the situations when an entity presents its first financial statements in accordance with IFRSs.</p>	<p>Currently IPSASs do not provide clarification when an entity presents its first IPSAS financial statements.</p>
<p><b>IFRS 1.4 and IFRS 1.IN3</b> IFRS 1 applies when an entity adopts IFRSs for the first time by an explicit and unreserved statement of compliance with IFRSs. Par. 4 also illustrates when IFRS 1 does not apply.</p>	<p>IPSASs currently don't have a standard for first-time adoption. According to IPSAS 1.28 an entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs. Based on the transitional provisions IPSASs allow a phased approach for the first-time adoption of accrual IPSASs. Under IFRSs there is no such approach as the regime foresees that either an entity complies with each IFRS effective at the end of its first IFRS reporting or the entity is not in compliance with IFRSs (see IFRS 1.IN4). Especially entities under scenario 1 might require a phased approach.</p>
<p><b>IFRS 1.5</b> IFRS 1 does not apply to changes in accounting policies made by an entity that already applies IFRSs. Such changes are the subject of: (a) requirements on changes in accounting policies in IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>; and (b) specific transitional requirements in other IFRSs.</p>	<p>According to IPSAS 3.19 and 3.20 a change from one basis of accounting to another basis of accounting and a change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy. Therefore, the first-time adoption of accrual IPSASs is seen as a change in accounting policies. Other than under IFRSs, IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, applies in the case of first-time adoption.</p>
<p><b>IFRS 1.6</b> As the starting point for the accounting in accordance with IFRSs of an entity IFRS 1.6 requires the preparation and presentation of an opening IFRS statement of financial position at the date of transition to IFRSs</p>	<p>Currently, IPSASs require neither the preparation nor the presentation of an opening IPSAS statement of financial position.</p>

<p><b>IFRS 1.7 ff.</b> An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period, except as specified in paragraphs 13–19 and Appendices B–E. IFRS 1.8 gives an example for the consistent application of the latest version of IFRSs.</p>	<p>IPSASs do not require to prepare (and present) an opening statement of financial position.</p>
<p><b>IFRS 1.9</b> The transitional provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter's transition to IFRSs, except as specified in Appendices B–E.</p>	<p>The transitional provisions under IPSASs currently apply to the following three situations:</p> <ol style="list-style-type: none"> <li>1. An entity applies the cash basis of accounting and is in the process of adopting accrual IPSASs.</li> <li>2. An entity applies the non-IPSAS/IPSAS-like accrual basis and is in the process of adopting accrual IPSASs.</li> <li>3. An entity has adopted accrual IPSASs and is applying a revised or new accrual IPSAS.</li> </ol> <p>In some IPSASs it is not clear to what situation the transitional provisions refer.</p>
<p><b>IFRS 1.10</b> IFRS 1.10 clarifies the recognition, measurement as well as classification of assets and liabilities in the opening IFRS statement of financial position.</p>	<p>There is no such requirement in a single IPSAS.</p>
<p><b>IFRS 1.11</b> IFRS 1.11 covers the accounting treatment of resulting adjustments due to differences in accounting policies that an entity uses in its opening IFRS statement of financial position and those that it used for the same date using its previous GAAP.</p>	<p>As IPSASs currently do not require an opening IPSAS statement of financial position.</p>
<p><b>IFRS 1.12</b></p> <p>(a) Paras. 14-17 and Appendix B of IFRS 1 <b>prohibit retrospective application of some aspects of other IFRSs</b> (particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known).</p> <p>(b) Appendices C-E of IFRS 1 grant <b>exemptions</b> from some requirements of other IFRSs.</p>	<p>According to IPSAS 3.28 ff. and in analogy to IAS 8.23 ff., impracticability represents a limitation on retrospective application. Due to IPSAS 3.18 and 3.19 the impracticability criterion also applies to the first-time adoption of accrual IPSASs. An explicit prohibition to retrospective application where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known does not exist under IPSASs. Currently, transitional provisions grant exemptions from some requirements of the respective IPSAS.</p>

<p><b>IFRS 1.21</b> IFRS 1.21 clarifies that an entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.</p>	<p>According to IPSAS 1.151 comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. This means that if an entity has already applied accrual accounting and moves to accrual IPSASs (scenario 2) the entity has to provide comparative information. Entities moving from the cash to the IPSAS accrual basis (scenario 1) do not have to provide comparative information.</p>
<p><b>IFRS 1.23 ff.</b> IFRS 1.23 ff. require disclosures and reconciliations that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows</p>	<p>IPSASs do not require disclosures that explain how the transition from its previous situation to IPSASs affected the entity's reported financial position.</p>
<p><b>Appendix A: Defined terms</b> Appendix A defines crucial terms for the first-time adoption of IFRSs (e.g. date of transition to IFRSs, deemed cost, first IFRS financial statements, first IFRS reporting period, or opening IFRS statement of financial position).</p>	<p>The current IPSASs do not define such terms.</p>
<p><b>IFRS 1.D5 ff.</b> <b>Deemed Cost Exemption:</b> An entity may elect to measure an item of PP&amp;E, investment property (if the entity elects to use the cost model in IAS 40), intangible assets (according to IFRS 1.D (b)) at the date of transition to IFRSs at its fair value as its <b>deemed</b> cost at that date. Hereby, an entity may use a previous GAAP revaluation as the deemed cost of an item of PP&amp;E if the revaluation under previous GAAP was broadly comparable to fair value or cost/depreciated cost under IFRSs adjusted e.g. for changes in price index. When the deemed cost exemption is applied, deemed cost is the basis for subsequent depreciation and impairment tests. Appendix A of IFRS 1 defines deemed cost as "An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost." According to IFRS 1.D14 and D15 the deemed cost approach is also possible for investments in subsidiaries, jointly controlled entities and associates.</p>	<p>Regarding PP&amp;E, IPSAS 17 offers a different approach to measure an item of PP&amp;E on first-time adoption than IFRS 1 does. IPSAS 17.96 provides that an entity that adopts accrual accounting for the first time in accordance with IPSASs shall initially recognize PP&amp;E <b>at cost</b> or <b>fair value</b>. Hence, IPSASB's approach to measure PP&amp;E on first-time adoption at fair value is similar to the deemed cost approach of the IASB. The only difference between the two approaches is that IPSAS 17.98 allows where the cost of acquisition of an asset is not known, that cost may be estimated by reference to its <b>fair value as at the date of acquisition</b>. IFRS 1.D5 references to the fair value at the date of transition to IFRSs. IPSAS 17 does not explicitly provide that fair value will be its deemed cost. Furthermore, under IPSASs the entity has a five-year period following the date of first adoption of accrual accounting in accordance with IPSASs to recognize an item of PP&amp;E.</p>



27. The analysis of IFRS 1 shows that currently IPSASs lack appropriate guidance on first-time adoption of accrual IPSASs (e.g. the requirement to prepare and present an opening IPSAS statement of financial position). The analysis also reveals that the issuance of a standard on the first-time adoption of accrual IPSASs based on IFRS 1 implies that the current IPSASB's approach to first-time adoption would likely have to be adapted. For example, currently the transitional provisions under IPSASs offer a wider approach than IFRS 1 does (e.g. the provision of comparative information in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs). The transitional provisions under IPSASs would also have to be reconsidered to which scenario they apply.
28. Based on the initial analysis of existing transitional provisions in IPSASs and material available from the IASB, there are a number of key issues which need to be explored and require further direction from the Board. The following issues were identified:
1. IPSAS Compliance
  2. Opening IPSAS Statement of Financial Position
  3. Use of Comparative Information

These issues will be discussed in detail in the last part of the paper.

### **3. Implications of the analysis for possible approaches for a standard on first-time adoption of IPSASs**

29. Based on the analysis in the previous section, there is a substantial amount of material that is available and can be used to inform the development of transitional arrangements for the first time adoption of accrual IPSASs. The purpose of this section is to obtain the Board's views on whether/how this information should be used to progress the project. The purpose of this section is also to receive input from the Board about the type of document that should be developed by the Staff going forward, i.e. a Consultation Paper, Exposure Draft or a combination of these.

#### ***3.1 Approaches to the development of transitional provisions for the first-time adoption of IPSASs***

30. Irrespective of the transition scenario the analysis has shown that the project on first-time adoption of accrual IPSASs has to consider the existing transitional provisions in IPSASs as well as the provisions in IFRSs as a starting point. Even in scenario 1 (transition from cash to IPSAS accrual), IFRS 1 provisions seems to contain useful guidance for public sector entities (e.g. the use of a "deemed cost" approach to the initial measurement of assets and preparation and presentation of an opening IPSAS statement of financial position).
31. Even though IFRS 1 does not express this explicitly, it can be assumed that IFRS 1 only deals with a situation where an entity performs a transition from non-IFRS accrual to IFRS accrual. This leads to the question whether IFRS 1 can be applied only to scenario 2 (transition from non-IPSAS/IPSAS-like) as scenario 1 (transition from cash to IPSAS accrual) is specific to the public sector and obviously not covered (explicitly) by IFRS 1. As a consequence, it has to be explored whether IFRS 1 is also suitable (wholly or partially) for scenario 1.
32. Based on the fact that the current transitional provisions in IPSASs contain specific public sector features and therefore differ from the transitional provisions as provided by IFRS 1, staff is of the view that IFRS 1 is only partially be suitable as a starting point for scenario 1.
33. With regard to scenario 2, IFRS 1 might be a suitable starting point as IFRS 1 was developed on that basis. Should the Board decide to use IFRS 1 as a starting point, then the development of guidance for the first-time adoption of accrual IPSASs under scenario 2 could be characterized as a convergence project. As this type of project requires considering IASB documents for convergence, staff needs to perform a Rules of the Road Analysis.
34. Based on the analysis of existing requirements outlined in section 1 and 2 of the Issues Paper, staff has identified three possible approaches to move forward. It has to be considered that in the end all three approaches have to satisfy user needs for accountability and decision-making as well as fulfill the qualitative characteristics of financial reporting. Therefore, the three approaches identified differ mainly in their starting points for the development of a standard on the first-time

adoption of accrual IPSASs. The three approaches intend to balance on the one side the user needs and on the other side the different requirements public sector entities face under both scenarios. In the following the three approaches will be described in detail:

**35. Approach 1: Develop separate transitional arrangements for scenario 1 and scenario 2**

Approach 1 uses the two scenarios identified in the Scope-section of the Issues Paper as a starting point and will be based on either the transitional provisions in IPSASs and/or the provisions of IFRS 1. Based on the explanations above, staff assumes that the transitional provisions in IPSASs will form the starting point for scenario 1 and the provisions of IFRS 1 the starting point for scenario 2. Under this approach, staff will use the existing transitional provisions in IPSASs as a basis for the transitional provisions under scenario 1, and will assess whether (a) these are appropriate, (b) to what other areas (e.g. specific type of assets other than property, plant and equipment) they can be applied and (c) whether any additional transitional provisions are required. Under scenario 2, staff will perform a Rules of the Road Analysis. It is envisaged that this approach will likely result in different transitional provisions for scenario 1 and scenario 2.

**36. Approach 2: Develop transitional arrangements for the first time adoption of IPSASs, no distinction between scenario 1 and scenario 2**

In this more holistic approach, staff intends analyzing the existing transitional provisions in IPSASs and IFRSs as a starting point and identifying what the most appropriate transitional provisions are for the first time adoption of IPSASs, irrespective of the previous basis of accounting applied. Staff will assess whether (a) any of these transitional provisions are appropriate and (b) in which other areas transitional provisions are needed. As noted earlier, the assessment of the appropriateness of any transitional provisions will be made based on whether they meet the objectives of financial reporting, user needs, as well as the qualitative characteristics. Under this approach a Rules of the Road Analysis will likely not be performed.

**37. Approach 3: Convergence approach**

Finally, approach 3 assumes that the project will solely be a convergence project and therefore the starting point for the development of a standard on first-time adoption will be IFRS 1. The distinction between scenario 1 and scenario 2 will only have a subordinated role and might only be required on a case-by-case basis. Please also note that this does not imply that guidance as provided by IPSASs (transitional provisions) would not be considered. A Rules of the Road-Analysis will form the main part of approach 3. Based on the analysis, IFRS 1 would then be adapted and amended as necessary.

*3.2 Type of Document to be Developed - Exposure Draft or a Consultation Paper*

38. In the light of more and more countries moving towards IPSASs and adopting these standards guidance on the first-time adoption of IPSASs seems to be urgently required.
39. The TBG discussed whether the project should be progressed by developing an Exposure Draft without issuing a Consultation Paper in advance or whether the IPSASB shall develop as a first step a Consultation Paper and, based on comments received by the constituents, prepare an Exposure Draft.
40. For a situation where public sector entities move from an accrual basis to IPSAS accrual (scenario 2) IFRS 1 might be a suitable reference point for a standard on first-time adoption of accrual IPSASs. Based on this scenario the project possesses features of an IFRS convergence project. Therefore, in the context of scenario 2 a move straight to an ED seems to be a possible approach. Nevertheless, the project includes a scenario which is not covered by IFRS 1. The transition from cash to IPSAS accrual is specific to the public sector and might require prior consultation with the IPSASB's constituents.

41. The IPSASB's Terms of Reference (ToR) only require an Exposure Draft to be issued; they do not require a Consultation Paper to be issued first. Typically, convergence projects of the IPSAB have not made use of a Consultation Paper.
42. One of the crucial questions here is whether the move from cash accounting to accrual IPSASs (scenario 1) requires special consideration. Also the time dimension needs to be considered as there are countries which are urgently looking for first-time adoption guidance within IPSASB's suite of standards. Another consideration is the significance of such a conversion project for a public sector entity/jurisdiction, i.e. moving from a sovereign governmental/public sector accounting system to a system which is based on international standards set by the IPSASB. Based on this far-reaching decision, the Board might want to offer broad participation possibilities by constituents.
43. Based on the assumptions that
  1. only an Exposure Draft will be issued;
  2. the IPSASB approves the ED in its September 2012 meeting; and
  3. the exposure period will be 6 months,staff expects that a final standard could be issued by end of 2013. Whereas the standard comment period for an Exposure Draft is 4 months, staff believes that the comment period for an ED in this case should be 6 months to allow for a longer consultation period.
44. In the case that the IPSASB decides to have a Consultation Paper prior to issuing an ED, then staff expects that a final standard could be issued by end of 2014 (based on the assumption that the exposure period for the CP and the ED will be 4 months).
45. A further option could be to (i) split the project in two sub-projects based on the two scenarios, with scenario 2 preparing likely an ED and scenario 1 likely a CP, or (ii) not to split the project in sub-projects and either (a) develop a CP, or (b) develop straight an ED. Staff notes that under option (i) still the possibility exist to either prepare a CP or an ED for the sub-projects.
46. As the type of document developed is strongly linked to the approaches outlined in the earlier section, staff has prepared a table outlining the three approaches and possible options for the type of document issued.

Approach	Sub-options	Starting Point	Rules of the Road Analysis	Likely consequences for development of CP/ED
<b>No. 1: 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: 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: Convergence approach</b>		Solely IFRS 1	Yes	Prepare an ED

47. In addition, staff has prepared an overview of the advantages and disadvantages associated with the development of either an ED or a Consultation Paper.

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>

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>

#### 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 - Separate transitional provisions developed for scenario 1 and scenario 2
- Approach 3 – Convergence approach

##### Type of document to be developed – Consultation Paper or Exposure Draft

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

48. Based on the analysis of IPSASB's requirements to first-time adoption as well as IFRS 1-requirements staff has developed the following table which might be used as a basis for further analysis.

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
...	...	...	...	...	...

#### Questions for the IPSASB:

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

49. Because of the IPSASB's objective to further enhance and promote the harmonization of public sector accounting standards and statistical reporting standards for the public sector the project on first-time adoption of accrual IPSASs has to take into account the statistical requirements regarding recognition, measurement as well as classification of assets and liabilities. Many of the rules, concepts, and procedures used in macroeconomic statistics are based on those used in public sector accounting. Ideally, wherever possible alignment of IPSASs with the requirements of Government Financial Statistics should be addressed already at first-time adoption of accrual IPSASs.
50. The application of accrual accounting standards such as IPSASs facilitates a government's preparation of fiscal statistics that meet the guidelines as set out in the Government Finance Statistics Manual. This is because a comprehensive and harmonized accrual accounting system greatly improves the source data necessary for compilation of GFS.
51. Differences between the two systems relate mainly to different objectives of the two systems and different definitions of the reporting entity. This leads to the fact that there are underlying conceptual as well as presentational differences between the two systems.
52. For example, the general valuation principle of GFS is to use current market prices for all assets, liabilities, and related value changes, i.e. for all stocks and flows. Differences arise when IPSASs allow the use of the historical cost basis. For example, under IPSASs, PP&E and intangible assets can be valued either at fair value or at depreciated historic cost on first-time adoption. Nevertheless, where an item is reported at historical cost, IPSASs often encourage or require disclosure of fair value, if there is a material difference between the item's historical cost and its fair value. If, under IPSASs, in addition to the book value based on historic cost, the fair value of the asset is also disclosed then reconciliation to GFS is feasible.
53. Par. 7.55 of the draft GFS manual states that if a government has a comprehensive accrual accounting system, such as that designed to produce IPSAS financial statements, then this will facilitate preparation of fiscal statistics, and greatly improve the source data for GFS. Production of fiscal statistics can be further facilitated through (a) choice of IPSAS options; and, (b) chart of accounts design. For example, many of the measurement differences can be overcome through choice of options within IPSASs. All of the classification differences described above can be addressed through chart of accounts design, see par 7.56 ff of the draft manual.

#### *Preliminary Conclusions*

54. The fact that the choice of IPSAS options determines alignment implies that also choices on first-time adoption of accrual IPSASs should be used to assure alignment with GFS. Therefore, it is the staff's view that in order to achieve alignment the above mentioned substantial differences between the two systems should already be addressed on first-time adoption of accrual IPSASs.
55. The IPSASB's Alignment Task Force, the IMF, and Eurostat recommend that governments also consider the production of GFS data when they first adopt accrual IPSASs and design a chart of accounts accordingly. Accounting policy decisions made during first time adoption can facilitate the production of GFS data. Therefore GFS alignment should be considered as part of the First-time Adoption project and vice versa: Staff recommends that the GFS Alignment Project should consider linkages and coordination with the First Time Adoption of Accrual IPSASs project.
56. The Taskforce on Alignment of IPSASs and Public Sector Statistical Reporting Guidance currently considers addressing the issue of first-time adoption and related statistical requirements in a revised version of IPSAS 22.

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

A. *In the first-time adoption standard:*

1. Include *encouragement* for entities to choose GFS aligned policy options within IPSASs;
2. Include *narrative* within the standard that notes/describes the alignment issue; or
3. 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.

58. Staff is of the view that option A.3 suits best the needs of entities which adopt accrual IPSASs for the first-time. Those entities expect to have all the relevant provisions and narrative/guidance which assure alignment in one single document. Therefore, option B can be excluded. Staff is of the view that Study 14 should not be the primary document for integration of GFS alignment considerations into first-time adoption because Study 14 has a different purpose than IPSASs. To include the considerations in a standard on first-time adoption would certainly better position the objective of alignment than including it in Study 14. Nevertheless, staff recommends to update Study 14 in parallel to the first-time adoption project. Also a mixed approach in which the standard on first-time adoption cross-references to the alignment narrative/guidance provided by a revised version of IPSAS 22 is not desirable. As the option to include encouragements for entities to choose GFS aligned policy options within IPSASs goes beyond the mandate of the IPSAS-Board option 1 is also not a valid option. So the best way to move forward is either option A.2 or A.3. In order to avoid that the same narrative/guidance is provided twice under IPSASs option A.3 (i) can be excluded. Therefore, the remaining question would be whether the alignment issues should be addressed by narrative or application/implementation guidance included in a standard on 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. Specific Issues Resulting from the Analytical Review of IPSASs and IFRS 1**

59. Irrespective of the decision taken by the IPSASB on the possible approaches in section 3 above, the Staff identified a few key issues which require discussion as these issues will impact on the type of transitional provisions developed.

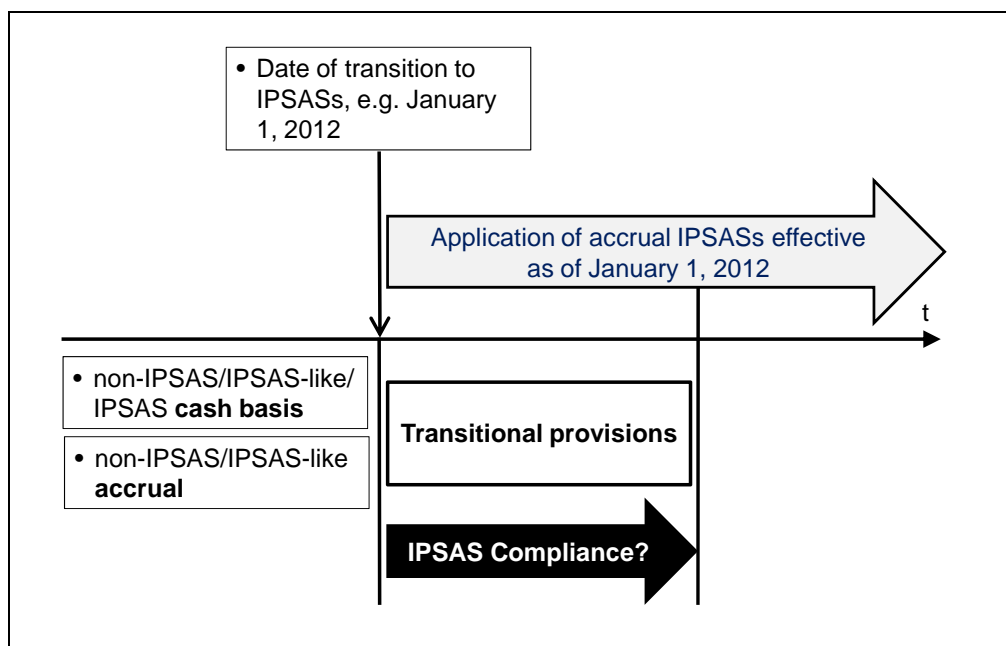
a. *IPSAS Compliance in Case of Usage of Transitional Provisions*

60. The question relates to the issue whether a public sector entity is in compliance with IPSASs if it uses certain elective transitional provisions currently included in IPSASs. Several public sector entities had used or are using a phased approach to the adoption of accrual IPSASs. Also Study 14 refers to a “transition path” for the first-time adoption of accrual IPSASs. This phased approach of adoption of accrual IPSASs does not correspond to the strict approach of IPSAS 1.28 (in analogy to IFRSs) where an entity has to **comply with all the requirements of IPSASs at the date of transition**. Currently, some transitional provisions under IPSASs allow for a certain transitional period to comply with the requirements of an IPSAS (e.g. IPSAS 1, 6, 17, or

25) and therefore create a transition path in which a public sector entity is able to “organize itself” for the full-adoption of IPSASs. Hence the question is if a public sector entity could claim to be in compliance with IPSASs in case it makes use of the transitional provisions as provided by certain IPSASs.

61. This question led to considerable debates at the United Nation Systems, as well as in South Africa, in their IPSAS implementation.

62. The following graph summarizes this question:



#### 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)?

#### b. Opening IPSAS Statement of Financial Position and Comparative Information

63. As outlined in Section 2 of the Issues Paper the analysis showed that neither IPSASs nor Study 14 contains requirements to prepare and present an opening IPSAS Statement of Financial Position. Study 14 references several times to the requirement to have opening balances but does not provide directions where these requirements have its origin.

64. IPSAS 1.151 provides that comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. In contrast, IFRS 1 provides retrospective application of IFRSs with some exceptions. IFRS 1.21 requires that an entity’s first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if



presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

65. The following example taken from IFRS 1 illustrates the understanding of first-time adoption and the preparation and presentation of an opening IFRS statement of financial position according to IFRSs.

**Example: Consistent application of latest version of IFRSs**

**Background**

The end of entity A's first IFRS reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to IFRSs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements in accordance with its *previous GAAP* annually to 31 December each year up to, and including, 31 December 20X4.

**Application of requirements**

Entity A is required to apply the IFRSs effective for periods ending on 31 December 20X5 in:

- (a) preparing and presenting its opening IFRS statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new IFRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that IFRS in its first IFRS financial statements.

66. The example shows that the approach to first-time adoption in IFRSs differs from the IPSASB's approach to first-time adoption of accrual IPSASs. Guidance on how to prepare and present an opening IPSAS Statement of Financial Position is clearly missing in IPSASs.
67. In case that a public sector entity does not present comparative information in its first set of financial statements, the date of transition to IPSASs and the first IPSAS reporting period are in the same year. This is not consistent with IFRS 1.

**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?

**c. Future Approach to Transitional Provisions under IPSASs**

68. The analysis in the beginning of the Issues Paper has shown that 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). Based on this fact and in regard that the IPSASB

intends to develop a standard on first-time adoption of accrual IPSASs 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.

**Questions for the IPSASB:**

Staff asks the Board to confirm its view.

## Appendix 1

### The Current IPSASB's Approach of First-time Adoption of IPSASs

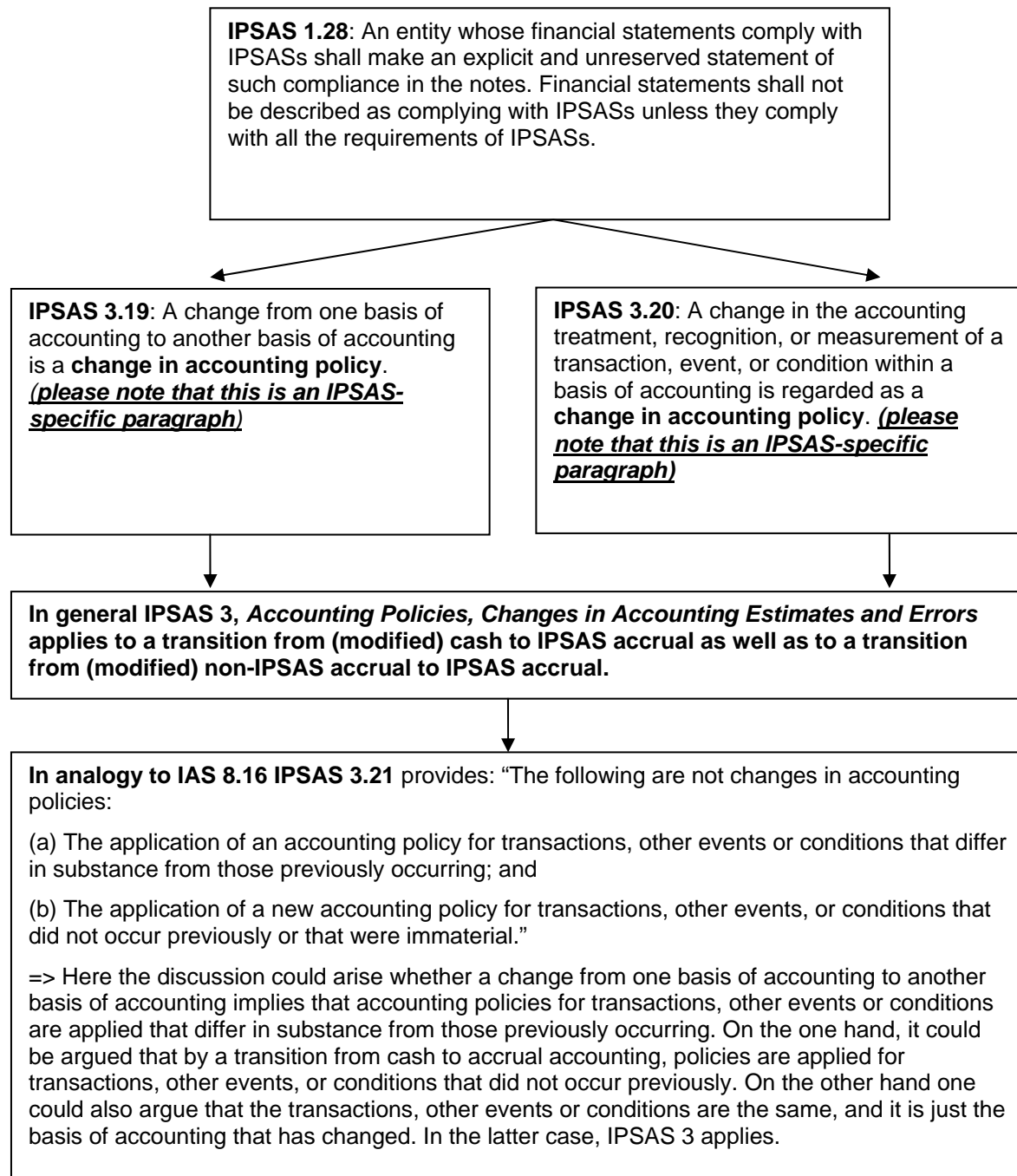
According to par. 22 of the Preface to International Public Sector Accounting Standards a public sector entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply **all** the accrual based IPSASs **which are effective at that date** and could choose to apply the easements offered by the transitional provisions in an individual accrual based IPSAS (see here Appendix 2 which gives an overview of effective IPSASs as of January 1, 2012). Some of the transitional provisions under IPSASs provide relief to the entities on first-time adoption (e.g. IPSAS 1.151 which allows that comparative information is not presented in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs, or IPSAS 6.65 where entities are not required to eliminate balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of accrual accounting in accordance with IPSASs). Entities **have a choice** to take advantage of the relief offered by the transitional provisions; they do not have to make use of them.

An entity can claim **full compliance with accrual basis IPSASs** only when it has complied with the requirements of all applicable IPSASs currently in force, cf. IPSAS 1.28. Study 14, Par. 4.21 underlines that the point at which this happens depends upon the approach taken to adoption of accrual accounting in a jurisdiction.

Par. 23 of the Preface to International Public Sector Accounting Standards clarifies that on the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual based IPSASs. Thus, according to IPSAS 1.28 the entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. It has to be noticed that financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.

Based on the transitional provisions in single IPSASs an entity may decide to defer the application of the accrual basis of accounting to the recognition of certain transactions or balances for a set period of time (cf. Study 14, par. 4.18, page 75). In this case, Study 14 talks about a "transition path". The transitional provisions govern the length of time available to make the transition.

The following diagram sets out the current regulations under IPSASs on first-time adoption:



**To sum up**, the question could be **whether IPSAS 3 applies to the first-time adoption of accrual IPSASs**. References made by transitional provisions of other IPSASs (e.g. IPSAS 16.99, IPSAS 17.99, or IPSAS 3.128) clarify that **IPSAS 3 applies** in case of first-time adoption of accrual IPSASs.

**What consequences does the application of IPSAS 3 have to first-time adoption of IPSASs?**

1. According to IPSAS 3.24: “(a) an entity shall account for a change in accounting policy resulting from the initial application of an IPSAS in accordance with the **specific transitional provisions**, if any, in that Standard; and  
(b) when an entity **changes an accounting policy upon initial application of an IPSAS** that does **not** include **specific transitional provisions** applying to that change, or **changes an accounting policy voluntarily**, it shall apply the change **retrospectively**. (Please note: Early application of a Standard is not a voluntary change in accounting policy, IPSAS 3.25).

IPSAS 3.24 (a) clarifies that in the initial application of an IPSAS (this comprises the first-time adoption of IPSASs) the specific transitional provisions in each IPSAS applies. As there is currently no standard comparable to IFRS 1, *First-time Adoption of IFRSs*, under IPSASs the specific transitional provisions according to each IPSAS are the primary guidance on first-time adoption of IPSASs. In contrast to IPSASs, IFRS 1.9 provides that the transitional provisions in other IFRSs [than IFRS 1] apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter's transition to IFRSs, except as specified in Appendices B-E of IFRS 1.

Typically, if an entity makes use of the relief provided in the transitional provisions then the entity should disclose that fact (e.g. see IPSAS 6.67, IPSAS 8.67 or IPSAS 17.104).

Unfortunately, IPSAS 3.24 ff. does not provide guidance for the case when there are no transitional provisions in an IPSAS. Presumably, following the logic of IPSAS 3.24 (b) the entity shall apply the change retrospectively. In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, (e.g. to present an opening statement of financial position), according to IPSAS 3.12 management shall use its judgement in developing and applying an accounting policy. In this case the management of the entity considers the hierarchy of IPSASs as provided by IPSAS 3.15. Following this route, the entity could consider the use of IFRS 1. Here the question could arise whether IFRS 1 has to be fully applied (e.g. the requirement to present comparative information), or whether solely the missing regulations under IPSASs could be applied. As IPSAS 3.15 uses 'may' rather than 'shall' one can assume that an entity can just make use of the regulation which is missing under IPSAS.

*Considerations in the case of a decision to voluntarily implement accrual IPSASs*

If an entity decides to **voluntarily** implement accrual IPSASs then the question could arise whether IPSAS 3.24 (b) applies, i.e. the entity shall apply the change retrospectively. According to IPSAS 3.25, for the purpose of IPSAS 3, early application of an IPSAS is not seen as a voluntary change. Therefore, retrospective application is not required. The same applies if just one IPSAS is applied voluntarily.

**What does retrospective application mean to a public sector entity?**

IPSAS 3.27 provides “When a change in accounting policy is applied **retrospectively** in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.”

- ⇒ The retrospective application of IPSASs might lead to enormous amounts of work as there will be a need to refer to historical recognition and measurement.

### What are limitations on retrospective application?

IPSAS 3.28 provides that a change in accounting policy shall be applied retrospectively, **except to the extent that it is impracticable** to determine either

- (a) the **period-specific effects**, or
- (b) the **cumulative effect of the change**.

In the case of a transition from the cash to the IPSAS accrual basis public sector entities will likely be not able to determine the required information.