



The Future Governance of IPSASB

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Agenda

- **Introduction**
 - A few words about IPSASB
 - A few words about the Governance Review Group
- **IPSASB Governance Challenges**
- **Review Group's Options for Improving the Governance of IPSASB**
- **Mandate and Composition of Monitoring and Oversight Bodies**
- **Concluding Remarks**



The Rise of IPSASB / IPSAS

- **From obscurity to prominence in a remarkably short period of time**
 - From fighting for relevance to ensuring its good governance
- **A tribute to the dedication of IPSASB (PSC) chairs, members, TAs, and staff**



The Governance Review Group

- The adoption of IPSASs by national governments however remains low.
- Consultation found concerns about the governance and oversight of the IPSASB cited by national authorities for not adopting IPSASs.
- If IPSASs are to play the role which they have the potential to do in improving government accounting practices, it is essential to resolve the questions related to their governance and to bring closure to discussions which have been ongoing for several years.
- In this context, the IPSASB Governance Review Group was formed to propose future governance and oversight arrangements for the IPSASB. The Review Group is chaired by the World Bank, the IMF and the OECD. It includes representatives from FSB, IOSCO, and INTOSAI. Eurostat and IFAC are observers.



Governance Challenges

- **Legitimacy**
 - Membership of IPSASB
- **Credibility**
 - Design of IPSASB's work programme
- **Accountability**
 - Oversight of IPSASB



Membership

- **Profile of IPSASB members has evolved over time**
- **The appointment process is entirely private sector oriented**
 - Members are appointed by IFAC's Board on the recommendation of its Nominating Committee, where all currently have a private sector orientation
 - Nominations come principally from national accountancy institutes, which mostly have a private sector orientation
- **There's no guarantee that today's public sector orientation of IPSASB members will continue with the appointment process currently in place**



Work Programme (1/2)

- **IPSASB's very reason for existence is to promulgate public-sector specific standards**
- **However, only 4 “Original” IPSASB standards exist:**
 - Revenues from Non-Exchange Transactions (Taxes & Transfers)
 - Service Concession Arrangements (PPPs)
 - *Presentation of Budget Information*
 - *Disclosure of Information about the GGS (Statistics)*



Work Programme (2/2)

- **The remaining 28 accrual basis IPSASB standards are a tweaking of already existing IFRS private sector standards**
- **At the same time, IPSASB devotes resources to:**
 - GFS Alignment Project
 - Long-term fiscal reporting
 - Reporting service performance (outcomes and outputs)
- **Very significant gaps exist in what many expect IPSASB to do and its currently promulgated standards and future work programme.**



Oversight

- **IPSASB does engage in elaborate due diligence processes as it carries out its work...**
- **...But uniquely among international standard setters, there is no formal oversight mechanism**
 - No oversight board for the nomination of members
 - No oversight board for the manner in which standards are developed



Options for Establishing the IPSASB's Monitoring and Oversight Bodies (1/2)

- **Extending IFRS Foundation's MB and Trustees activities to encompass IPSASB**
- **Separate Monitoring and Oversight Bodies for IPSASB within IFAC**
 - “A public sector PIOB”
- **Re-establishing the IPSASB outside IFAC with its own Monitoring and Oversight Bodies**



Options for Establishing the IPSASB's Monitoring and Oversight Bodies (2/2)

- In weighing the advantages and disadvantages of the three governance reform options, the Review Group has taken into account the following practical considerations:
 - – the **speed** with which the new governance arrangements can be put in place;
 - – the **likely costs** associated with different oversight options;
 - – the **availability of funding** to meet those costs.



Extending IFRS Foundation's MB and Trustees activities (1/2)

Advantages:

- Integrating IPSASB into the IFRS Foundation's oversight framework would support the long-term convergence of financial reporting standards between the private and public sector.
- The IFRS Foundation's MB and Trustees have well established competence, resources, and procedures for the public interest oversight of accounting and financial reporting standard setting activities for the private sector, most of which will be readily applicable to the setting of public sector accounting standards.
- Costs of the IPSASB oversight would only be incremental to those already being incurred.



Extending IFRS Foundation's MB and Trustees activities (2/2)

Challenges:

- The composition of the MB and Trustees would need to be expanded to include representatives of a wider public interest and individuals with competence in public sector accounting issues.
- The additional costs associated with activities of the public sector subcommittee of the MB and public sector Trustees would need to be met for which no immediate source of funding is available.
- These changes to the remit and composition of the Board and Trustees would likely have to await a reviews of the IFRS Foundation's constitution – not expected for another two years.



Separate Monitoring and Oversight bodies for IPSASB within IFAC (1/2)

Advantages:

- The members of such a body, or bodies, could be selected fully on the basis of their background and expertise in public sector accounting issues.
- Such a body, or bodies, could be established reasonably quickly without requiring the constitutional and organizational changes to the IFRS Foundation machinery.
- It is expected that the current funding of the activities of the IPSASB, half of which are met by IFAC members, could also be maintained.



Separate Monitoring and Oversight bodies for IPSASB within IFAC (2/2)

Challenges:

- A separate board would not benefit from the accumulated experience and expertise in public interest oversight established by the IFRS Foundation's MB and Trustees.
- The overall cost of oversight would likely be increased, as it would not benefit from the economies of scale and scope that would come from having single bodies overseeing both standard setters.
- Continued reliance on IFAC for the bulk of the IPSASB funding could raise questions in some quarters about the Board's independence from the accounting profession.



Re-establishing the IPSASB Outside IFAC with its own Monitoring and Oversight Bodies (1/2)

Advantages:

- This arrangement would be mostly similar to Option 2 with the exception that the IPSASB's formal connection with IFAC would be broken.
- The principal practical advantage of this option is that any perceived conflict of interest associated with IFAC's financial support to the IPSASB would be removed.



Re-establishing the IPSASB Outside IFAC with its own Monitoring and Oversight Bodies (2/2)

Challenges:

- Establishing a new structure will likely be a more time consuming option than Options 1 and 2, as there is no other international organization body or organization which has offered to host the IPSASB.
- A free-standing IPSASB would likely require additional staffing and financial resources beyond what would be required under Options 1 and 2.
- If the IPSASB were to lose the financial support provided by IFAC members, there are no evident alternative means of financing the bulk of its activities.



Mandate of Monitoring and Oversight Bodies

- Review the current terms of reference of the IPSASB that define the standard setting process and approve any modifications to the document
- Oversee the nomination and appointment of the members/chairs of the different bodies involved in the standard setting process
- Ensure appropriate consultation and transparency in the development and approval of the strategy, work program, and budget of the different bodies



Membership of Monitoring and Oversight Bodies

- **Primary resource providers and users** of the financial information including organizations representing the interests of Parliaments, supreme audit institutions, and citizens themselves
- **Secondary resource providers and users** of the financial information, including organizations representing the interest of investors in sovereign assets such as securities and other financial sector regulators
- **National monitoring bodies** responsible for overseeing the work of standard setting for their domestic public sector institutions
- **International institutions** responsible for setting and promoting standards for government financial reporting, which can also be secondary resource providers in some cases



Concluding Remark

- Views on the three options
 - Including some combination or sequenced implementation (e.g. short-term/long-term approaches)
- Views on the remit and composition of the monitoring and oversight bodies
 - Including the possibility of a joint monitoring and oversight body
- Deadline for submission: 30 April 2014
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