



Agenda Item 5: Government Business Enterprises

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IPSASB Meeting

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Toronto, Canada

Objective of Session & Material Presented (para. 1&2)

- **Objective**

- **Consider** draft Consultation Paper (CP), *Government Business Enterprises (GBEs)*; and
- **Provide** directions for amendment with a view to approval.

- **Material Presented**

Agenda Item 5.1a

Draft CP (marked-up version)

Agenda Item 5.1b

Draft CP (clean version)

Background (1) (Covering Memo para. 7)

- **Approaches identified in December 2013 meeting**

(1) Not formally defining GBEs in IPSASs, but providing the characteristics of public sector entities, including controlled entities, to which IPSASs are intended to apply;

(2) Continuing to define GBE with two options;

(2a) Clarify the current definition of GBEs with the objective of promoting a more consistent application of the definition;
and/or

(2b) Narrow the existing definition of GBEs to profit-seeking objective.

Background (2) (Covering Memo para. 8)

- Use of selective terminology from Government Finance Statistics (GFS) creates problems due to the inter-relationship between different terms:
 - Non-market basis and economically significant prices
- Replacement of “non-market basis” by “non-commercial basis” in the revised CP

Approach 3 (1) (Covering Memo para. 10)

- The IPSASB seeks to minimize differences with the statistical basis of accounting, where appropriate
- Publication of IPSASB Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*, February 2014
- Staff developed a third approach that responds to the Policy Paper:
 - Convergence with statistical guidelines (2008 SNA)

Approach 3 (2) (Covering Memo para. 11&12)

- **Approach 3**

- IPSASB would not define GBEs (Similar to Approach 1)
- IPSASB would define “public corporations” as in 2008 SNA (Difference to Approach 1)
 - Would have to fulfill the attributes of an institutional unit
 - Market producer
 - Controlled by public sector entity as defined in IPSAS 6

Approach 3 (3) (Covering Memo para. 11&12)

- **Approach 3 (cont.)**
 - IPSASB provides the characteristics of public sector entities for which is developing IPSASs that approximate those in the 2008 SNA
 - Are responsible for the delivery of services to the public as a whole or to individual households on a non-market basis;
 - Make transfer payments to redistribute income and wealth;
 - Finance their activities, directly or indirectly, mainly by means of taxes and/or transfers from other levels of government.

Approach 3 (4) (Covering Memo para. 12&13)

- Comparison between Approach 1 and 3**

	Approach 1	Approach 3
Characteristics of public sector entities	Yes, with IPSAS terminology	Yes, with IPSAS and GFS terminology
Definition of GBE	No	No
Definition of Public Corporation	No	Yes, as in GFS
Borderline cases	Yes, indicators with IPSAS terminology	Yes, from GFS

Approach 3 (5)

- **Matter for Consideration 1.**
 - The IPSASB is asked to confirm that Approach 3 should be discussed in the CP.
 - If it should be discussed, Staff seeks direction whether this should be as a separate approach or as an option in Approach 1.
 - If the IPSASB decides not to include an approach aligning with GFS in the CP, Staff seeks direction about how to address GFS alignment in light of the recent publication of the Policy Paper.

Approach 2b (1) (Covering Memo para. 14)

- Restriction of any form of concessionary government funding would exclude from the definition of GBEs controlled entities that rely on government guarantees, community service grants or other funds from government.
- Amend the definition of a GBE by limiting it to entities with a profit-seeking objective.

Approach 2b (2)

- **Matter for Consideration 2.**
 - The IPSASB is asked to provide views on whether a definition of GBEs that includes a criterion that an entity must be profit-oriented is too restrictive.
- **Inclusion of SMC 5 in CP**
 - If the IPSASB were to retain a definition of GBEs how do you think the term “full cost recovery” should be interpreted? Please give your reasons?

Approach 1 (1) (Covering Memo para. 15)

- **Use of term ‘non-commercial’ rather than ‘non-market’**
 - IPSASs are designed to apply to entities that:
 - (a) Are responsible for the delivery of services to the public as a whole or to individual households on a **non-commercial basis**;
 - (b) Make transfer payments to redistribute income and wealth;
 - (c) Finance their activities, directly or indirectly, mainly by means of taxes and/or transfers from other levels of government; and
 - (d) Do not have equity providers that are seeking a return on their investment or a return of the investment.

Approach 1 (2)

- **Matter for Consideration 3.**
 - The IPSASB is asked to **confirm** the use of the term ‘non-commercial basis’ in Approach 1.

Approach 1 (3) (Covering Memo para. 16)

- **Development of indicators to help preparers and regulators in borderline cases (CP para. 7.12)**
 - (a) The entity is pursuing an economic or social policy stated by the government;
 - (b) The entity follows orders/instructions from the government to pursue its own business;
 - (c) The entity sells goods and services, in the normal course of business, without a profit;
 - (d) Is reliant on continuing government funding or guarantees to be a going concern (other than purchases of outputs at arm's length).

Approach 1 (4)

- **Matter for Consideration 4.**
 - The IPSASB is asked to **provide** views on the inclusion of indicators to provide guidance on borderline cases in Approach 1.

Other Changes in the draft CP from Ottawa Meeting (Covering Memo para. 18)

- In section 3, *Approach in Government Finance Statistics to Public Corporations*, further detail has been added on the following key terms in GFS: institutional unit and economically significant prices;
- In section 4, *Types of Controlled Entities*: two paragraphs about interventions in public corporations have been deleted;
- In section 7, *Approach 1*, paragraph 7.5 has been inserted from the Conceptual Framework about the function of governments and the reference to GFS terminology has been deleted;

Other Changes in the draft CP from Ottawa Meeting (Covering Memo para. 18)

- In section 8, IPSASB's Preliminary View, paragraph 8.5: wording has been added giving the advantages of Approach 3 and noting that it inserts some terms and wording typically used in GFS into the IPSASB literature.

Other Changes in the draft CP from Ottawa Meeting

- **Matter for Consideration 5.**
 - The IPSASB is asked to **confirm** the above changes to the draft CP.

Preliminary View (1) (Covering Memo para. 19)

- At the Ottawa meeting the IPSASB expressed an initial Preliminary View in support of Approach 1: *Describe the characteristics of public sector entities, including controlled entities, which the IPSASB considers when developing IPSASs and remove the definition of a GBE from IPSASs.*
- **Matter for Consideration 6.**
 - The IPSASB is asked to **reaffirm** its support for Approach 1 in the light of the introduction of Approach 3 or provide alternative directions.

Consultation Period (1) (Covering Memo para. 20)

- The standard consultation period for EDs and CPs is four months. Staff considers that four months is appropriate for a document of this size and complexity.
- **Matter for Consideration 7.**
 - The IPSASB is asked to **confirm** an exposure period of four months. (April to July 2014)



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