

Agenda Item 9: The Applicability of IPSASs

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Objectives of Session (Cover Memo para 1)

- **Objectives**

- **Discuss** the responses to Exposure Draft (ED) 56, *The Applicability of IPSASs*
- **Approve** the final pronouncement *The Applicability of IPSASs*
- **Approve** the *Amendments to Preface to International Public Sector Accounting Standards*

Material Presented (Cover Memo para 1)

- Agenda Item 9.1 Issues Paper, *The Applicability of IPSASs*
- Agenda Item 9.2 Analysis of Responses to ED 56
- Agenda Item 9.3 List of Respondents and Analyses of Responses by Region, Country, and Language to ED 56
- Agenda Item 9.4 Draft Final Pronouncement, *The Applicability of IPSASs*
- Agenda Item 9.5 Draft *Amendments to Preface to International Public Sector Accounting Standards*

Background

(Issues Paper—paras 2–9)

- **ED 56, *The Applicability of IPSASs***
 - One Specific Matter for Comment:

Whether constituents agree with IPSASB’s proposals of deleting the defined term “GBE” and removing all references to the term from the IPSASB’s pronouncements, so that the *Preface to International Public Sector Accounting Standards* (Preface to IPSASs) will provide guidance on the applicability of IPSASs and RPGs.

Significant Issues

(Issues Paper—paras 10–11)

- **26 responses to ED 56**
 - 8 respondents supported IPSASB’s approach in the ED
 - 18 respondents partially supported IPSASB’s approach in the ED:
 - 11 respondents suggested amendments to the wording on the proposed characteristics of public sector entities
 - 10 respondents suggested amendments to the use of the wording “commercial entities” and “commercial public sector entities”
 - 9 respondents suggested other amendments to IPSASB’s literature

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 15–41)

CP	ED 56
<p>IPSASs are designed to apply to entities that:</p> <ul style="list-style-type: none">(a) Are responsible for the delivery of services¹ to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;(b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment. <p>¹ Services encompasses goods and services.</p>	<p>The IPSASs are designed to apply to public sector entities¹ that:</p> <ul style="list-style-type: none">(a) Are responsible for the delivery of services² to benefit the public and/or to redistribute income and wealth;(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment; and,(c) Do not have a primary objective to make profits. <p>¹ Paragraph 1.8 of <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> identifies a wide range of public sector entities for which IPSASs are designed.</p> <p>² Services encompasses goods, services and policy advice.</p>

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 15–41)

- **3 Types of suggestions:**
 - a) Proposals already discussed and rejected by IPSASB;
 - b) Proposals that IPSASB has not considered previously; and
 - c) Clarifications of the characteristics.

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 15–27)

- **Proposals already discussed and rejected by IPSASB**
 - Summary in Table 2 of Issues Paper
- **Matter for Consideration 1(a)**
 - **Confirm** staff's analysis in Table 2 on paragraphs 10(a) and 10(c)
Or **provide** alternative directions

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 15–27)

- **Proposals already discussed and rejected by IPSASB**
 - Views on the wording “capital” in paragraph 10(b):
 - Public sector entities may have debt capital providers:
 - But not equity capital providers (R06)
 - Who would be seeking a return on their investment or of their investment (R02)
 - Use “equity” instead of “capital” (R02)
 - Clarify that “seeking a return” refers to “financial returns”

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 15–27)

- Staff's view:
 - Staff acknowledges respondents' arguments that the *Preface to the Conceptual Framework* uses the term “equity” and not “capital” and the use of different wording may create confusion in interpretation of IPSASB's literature

Matter for Consideration 1(b)

- **Confirm** retention of the term “capital” in paragraph 10(b)
Or **provide** alternative directions

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 28–37)

- **Proposals that IPSASB has not considered previously**
 - Paragraph 10(a):

Respondents' Suggestions	Respondents' Rationale
<ul style="list-style-type: none">• <u>Have a primary objective to deliver</u> Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth; (R02)	<ul style="list-style-type: none">• Improve consistency with paragraph 2 of the <i>Preface to the Conceptual Framework</i>.
<ul style="list-style-type: none">• "...Are responsible for the delivery of services to the public, <u>or to other public sector entities,</u>" (...); (R04)	<ul style="list-style-type: none">• There are other "services such as information technology and building maintenance to other government departments and agencies, and do not provide services directly to the public".

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 28–37)

- **Proposals that IPSASB has not considered previously**
 - Paragraph 10(b):

Respondents' Suggestions	Respondents' Rationale
<ul style="list-style-type: none">• Non-inclusion of the last part of paragraph 10(b) on “return on capital”; (R13)	<ul style="list-style-type: none">• “(...) might add unnecessary confusion if retained in the Preface, particularly if qualified with the terms “mainly”(...); (R13)
<ul style="list-style-type: none">• Separate paragraph 10(b) into two sub paragraphs: the finance section and the capital providers section; (R06, R09 and R16)	<ul style="list-style-type: none">• They are two distinct characteristics (R06), equally important (R16) and the finance section is not a distinctive characteristic (R09)
<ul style="list-style-type: none">• (...) debt or fees <u>rather than by means of resources from</u> capital providers that are seeking a return on their investment or a return of their investment; (R18)	<ul style="list-style-type: none">• “should not be used as an excuse to put an entity out of the scope of IPSASs when it has a minor portion of its resources coming from such capital providers.” (R18)

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 28–37)

- **TBG member proposal**

- Increase the consistency with para. 3 of IPSAS 22 as follows:
 - *Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and ~~do not have capital providers that are seeking a return on their investment or a return of their investment~~ do not generate their funds primarily or substantially from commercial activities.*
- Delete para. 10(c)

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 28–37)

- Staff's recommendation:
 - Accept proposal of R02 on paragraph 10(a);
 - Accept proposal of R04 by adopting a more generic and principles-based approach by removing the wording “policy advice” in footnote 2 and add the wording “or to other public sector entities”
 - Delete the last part of paragraph 10(b) (“and do not have capital providers that are seeking a return on their investment or a return of their investment”).

Matter for Consideration 2

- Whether IPSASB **agrees** with the following wording in para.10(a):

The IPSASs are designed to apply to public sector entities¹ that:

(a) ~~Are responsible for the delivery of~~ Have a primary objective to deliver services² to benefit the public, or to other public sector entities, and/or to redistribute income and wealth;

¹ Paragraph 1.8 of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities identifies a wide range of public sector entities for which IPSASs are designed.

² Services encompasses goods, and services ~~and policy advice~~.

Matter for Consideration 3

- Which wording does IPSASB **prefer** in para.10(b):
 - (a) *Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees ~~and do not have capital providers that are seeking a return on their investment or a return of their investment~~; and, [implies **retention** of para. 10(c)]*
 - (b) *Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees ~~and do not have capital providers that are seeking a return on their investment or a return of their investment~~ do not generate their funds primarily or substantially from commercial activities [implies **deletion** of para. 10(c)]*

Or **provide** alternative directions

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 38–41)

- **Clarifications of the characteristics**

Para.	Respondents' Rationale
10(b)	<ul style="list-style-type: none">• Define “directly” or “indirectly” or use examples to illustrate their meaning (R07);• Clarification of “mainly” (R15);• Financing assessed historically or in the future (R15);• Does the term “a return of their investment” in (b) of the proposed changes to paragraph 10 of the Preface include the gain on sales, in addition to the return of the investment principal? (R12)
All	<ul style="list-style-type: none">• Criteria are to be fulfilled cumulatively or not (R07 and R25);• Change of circumstances may imply change of the applicability of IPSAS (R12 and R15);• Transition requirements (R12);• Applicability of IPSAS to entities that aim to recover the total costs (R12);

Issue 1—Characteristics of public sector entities in the Preface to IPSASs (Issues Paper—paras 38–41)

- **Clarifications of the characteristics**
 - **Staff's view:**
 - Some of the clarifications requested may be too rules-based and, therefore, contrary to the approach of providing high-level characteristics in a principles-based manner that draws from the *Conceptual Framework*.
 - **Staff's recommendation:**
 - Clarify the meaning of the characteristics in the Basis for Conclusions (BCs) to IPSAS 1 (see draft paragraphs in Agenda Item 9.4)

Matter for Consideration 4

- **Agrees** with staff's recommendation:
 - **To expand** the BCs to IPSAS 1; and
 - If so, whether the IPSASB **agrees** with the draft paragraphs BC27, BC29 and BC30-BC41 of IPSAS 1 in Agenda Item 9.4.
- Or **provide** alternative directions.

Issue 2 “Commercial entities” versus “commercial public sector entities” (Issues Paper—paras 42–59)

- **Background**

- The IPSASB decided to replace the term “GBE” with the terms “commercial entities” or “commercial public sector entities” to distinguish such entities, when appropriate, from other public sector entities for which IPSASs are intended and from commercial private sector entities.
- In some cases it could be misunderstood because there can be both public sector and private sector commercial entities (see paragraph 45(a) of IPSAS 11, *Construction Contracts*)

Issue 2 “Commercial entities” versus “commercial public sector entities” (Issues Paper—paras 42–59)

- **Background**

- Two terms were used to avoid the repetition of “public sector” in the same sentence where only public sector entities are discussed.
- The IPSASB also decided not to define or describe the term “commercial entities” because it wanted this term to be interpreted by regulators in each jurisdiction according to their own criteria.

Issue 2 “Commercial entities” versus “commercial public sector entities” (Issues Paper—paras 42–59)

Respondents' proposals	Staff's view
Replace the term “GBE” with the GFS term “public corporation” (R04)	Previously rejected by IPSASB because it is associated with the term GFS “economically significant prices”
Provide an explanation, description or definition of “commercial public sector entities” (R04, R13, R16, R19 and R23)	Previously rejected by IPSASB (see slide 22)
R19 agrees with ED's approach but further clarification is needed	-
Is not clear (R24), does not appear to be any rationale (R21) and lack of consistency (R07);	Using different terms to mean the same thing may create confusion and lack of consistency

Issue 2 “Commercial entities” versus “commercial public sector entities” (Issues Paper—paras 42–59)

Respondents' proposals	Staff's view
A presumption in the guidance that IPSASs are applied only by those entities for which they are intended -> remove “other than”	An implicit presumption is made in the IPSASB's literature with the proposed amendments that IPSASs are applied only by those entities for which they are designed.
“it is not appropriate to rewrite the past by merely replacing the term “GBE” with “commercial entity” within text explaining the IPSASB's past decisions” within the BCs (R13)	Include in the BCs to all IPSASs a standard paragraph about the final pronouncement <i>The Applicability of IPSASs</i> and update the wording in some paragraphs of those BCs

Matter for Consideration 5

- **Agrees** with staff's recommendation:
 - (a) Not to use the GFS term “public corporation”;
 - (b) Not to provide an explanation, description or definition of “commercial public sector entities”;
 - (c) Adopt a single term “commercial public sector entity” to replace the term “GBE”;
 - (d) Explain the reason for replacing the term “GBE” with the term “commercial public sector entity” in the BCs to IPSAS 1;
 - (e) Include a standard paragraph about the final pronouncement *The Applicability of IPSASs* in the BCs of all IPSASs and RPGs;
- Or **provide** alternative directions.

Issue 3: Other suggested amendments to IPSASB's literature (Issues Paper—paras 60–64)

- **Summary in Appendix A of Issues Paper**
 - **9 Categories**
 - **3 Accepted** by staff (1, 2 and 5) – Reinforces ED's approach of emphasizing the public sector entities for which IPSASs are designed;
 - **6 Not accepted** by staff:
 - Related to issues already discussed and rejected by IPSASB (3, 6, 7, and 9)
 - Goes beyond the purpose of this project (4 and 8)

Matter for Consideration 6

- **Asked to:**
 - (a) **Review** *Appendix A—Summary of other suggested amendments to IPSASB’s literature*; and
 - (b) **Confirm** agreement with staff’s recommendations in Appendix A
- Or **provide** alternative directions

Matter for Consideration 7

- **Issue 4: Review and approval**

- (a) Draft final pronouncement *The Applicability of IPSASs*—Agenda Item 9.4
 - Revised IPSASs and RPGs,
 - BCs to IPSAS 1;
 - Effective date January 1, 2018.
- (b) Draft *Amendments to the Preface to International Public Sector Accounting Standards*—Agenda Item 9.5