1. Attendance, Opening Remarks, Introductions (Agenda Item 1)

The IPSASB CAG Chair, Mr. Müller-Marqués Berger welcomed the members of the IPSASB Consultative Advisory Group (CAG) to Toronto, for the CAG’s inaugural meeting. The Chair also welcomed Mr. Blöndal representing the Public Interest Committee (PIC) and thanked the Secretariat of the PIC for their attendance. The Chair also thanked the IPSASB Chair, Ian Carruthers for attending and those members of the IPSASB in the gallery for their attendance. The Chair also acknowledged the IPSASB Technical Director and staff, IPSASB Observers and others in the public gallery, and thanked them for their attendance at this historic CAG meeting.

The Chair noted that apologies had been received from the following CAG members: Mr. Nazaroedin, Mr. Ndungu and Mr. Chowdhury. The Chair thanked the CAG members present and stressed the importance of attending each meeting, as the CAG only meets for one day twice a year.

2. CAG Remit, Procedures, Value Proposition (Agenda Item 2)

Mr. Müller-Marqués Berger provided the CAG with an overview of its roles and the important relationships with the Public Interest Committee (PIC), the IPSASB, and the International Federation of Accountants (IFAC). Additionally, Mr. Müller-Marqués Berger described the value proposition of the IPSASB CAG as to provide a forum for dialogue between the IPSASB and stakeholders.

Mr. Gunn, Managing Director, Professional Standards noted that the role of the IPSASB is that of an independent standard-setting board with a public interest mandate, with operating support provided by IFAC. He explained that the CAG will be consulted for input to IPSASB’s work at the critical stages in the standards development process, as well as in the development of the IPSASB’s strategy and work plan. Further, Mr. Gunn noted that the IPSASB adheres to a ‘report back’ process whereby the IPSASB directly communicates back to the CAG on each item of input received. Mr. Gunn introduced some key elements from the CAG Terms of Reference for information purposes.

The CAG members commented as follows:

- Mr. Matthews questioned whether there is scope to step back from the standards and consider the material more generally, for example, discussing how the material of the IPSASB can be improved to solicit more public comment, noting the material is heavy and may be inaccessible to some. Mr. Gunn noted that there is an opportunity for such discussions outside the scope of technical discussions.

- Mr. Kraff stated he sees the CAG’s role as being similar to an ombudsman in that it can help voice the views of stakeholders that may not respond to public consultations in the standards development process. Mr. Gunn welcomed such views and comments.

- Mr. Ramkumar echoed the comments made by Mr. Matthews and noted the material provided for the meeting was quite extensive and technical. Mr. Ramkumar indicated his role as a user of the financial statements and noted the importance of the implications of the standards to the stakeholders. He questioned whether such user perspectives as opposed to technical discussions, are welcomed and if they can be incorporated into future CAG agendas. Mr. Müller-Marqués Berger acknowledged that the topics can be complex and the amount of material voluminous. He believes it will become easier as the CAG delves into specific projects. Mr. Müller-Marqués Berger indicated the need to balance technical discussions with consideration of
the implications of accounting treatments for the users of the financial statements. Mr. Gunn acknowledged the diversity in the background of CAG members, and encouraged members to bring their perspectives to technical discussions, as well as practical implications as they feel appropriate.

- Mr. van Schaik asked for clarification on the title of the group “Consultative Advisory Group”, in particular whether the CAG could both provide “advice” and be “consultative”. Some may interpret both terms in a similar way. Mr. van Schaik questioned whether the group’s mandate is to respond to IPSASB requests or to provide broader advice. Mr. Gunn clarified that the CAG’s objective is primarily to provide advice on issues identified by the IPSASB. However, the CAG has an opportunity to raise matters for discussion if there are issues that the group feels important but not yet tabled by the IPSASB.

- Ms. Sanderson said the objective of her involvement is to provide a user perspective. She asked for further clarification if stakeholders include users, or if users are considered as a separate group. Mr. Gunn confirmed that users are part of the stakeholder community. Mr. Carruthers said that the composition of the CAG had been deliberately designed to incorporate global users of the financial statements as an acknowledgement of the importance of user input. Mr. Müller-Marqués Berger indicated that users are identified in the objectives of financial reporting in the IPSASB’s Conceptual Framework.

- Mr. Idris emphasized the need to share the experiences of members, so all can benefit from their individual experiences and unique operating environments. Mr. Idris indicated the importance of the members of the CAG listening and staying open minded, and to not be afraid of rejection.

- Mr. Müller-Marqués Berger emphasized the importance of balancing the provision of broad perspectives on issues, and addressing specific issues as requested by the IPSASB. Mr. Carruthers emphasized the importance of good governance, and noted that the IPSASB has been working towards making communication more accessible with various stakeholder groups. Recently, the IPSASB has undertaken a number of initiatives to help improve the accessibility of the IPSASB’s work, such as the inaugural Public Sector Standard Setters’ forum held in March 2016, the increased use of webinars, and the use of podcasts to provide timely high level summaries of IPSASB meetings. Mr. Carruthers also noted that there is a level of formality around standard setting that needs to be followed and noted the IPSASB’s Due Process and Working Procedures.

Mr. Müller-Marqués Berger proposed the preliminary CAG value proposition of ‘being a forum for communication with the IPSASB in order to facilitate communication of stakeholders’ perspectives to the IPSASB’. Mr. Müller-Marqués Berger noted that the value proposition is provisional and would be revisited at the end of the day. He also emphasized that the CAG role does not involve the CAG directly developing IPSASs or any other pronouncements, or interpretations.

Mr. Ramkumar noted that it was clear that the CAG’s role is not to develop IPSASs, but requested clarification on what the IPSASB does and what that means for the CAG. Mr. Carruthers asked Mr. Ramkumar to defer the question as it would be addressed in a later session (Agenda Item 4) on the IPSASB to be presented by Mr. Carruthers.
3. Public Interest Committee (Agenda Item 3)

The Chair welcomed Mr. Blöndal to share some words and thoughts from the Public Interest Committee (PIC). Mr. Blöndal noted that the formation of the CAG and its first meeting was an historic event, especially for those who have been involved with the IPSASB for many years.

Information on the PIC

Mr. Blöndal provided some background on the IPSASB Governance Review Group and its recommendations, which led to the development of the PIC and the CAG. Mr. Blöndal noted that the main impetus for change to the governance processes of the IPSASB were concerns among many stakeholders that the previous governance arrangements were inhibiting the adoption of IPSASs.

Mr. Blöndal provided an overview of the mandate of the PIC: to review and advise IFAC and the IPSASB on the Terms of Reference of the IPSASB, arrangements for nomination and appointment of IPSASB members, procedures and process for formulation of the IPSASB’s strategy and work plan and development of IPSASs to ensure that they are consistent with the public interest.

Mr. Blöndal noted that the PIC had made progress on the recommendations of the Governance Review Group, as follows:

- The PIC has reviewed and advised the IPSASB on changes to the Terms of Reference to reflect the creation and role of the PIC; and
- The PIC has reviewed and approved the IPSASB’s Due Process and Working Procedures.

Mr. Blöndal noted that the PIC had put a lot of emphasis on the IFAC process for nomination and appointment of IPSASB members. He noted that the PIC advocates a member recruitment strategy to ensure that the future membership of the IPSASB has a better balance of representation from the perspectives of gender, geographic representation and professional background.

Mr. Blöndal shared some PIC views on the IPSASB work program and process to develop standards. Firstly, he noted that what the IPSASB does is as important as how it conducts its work. Other points highlighted by Mr. Blöndal were as follows:

- The PIC sees a need for public sector specific standards and considers Social Benefits to be a high priority project, and accounting for Natural Resources as an area of emerging importance in many jurisdictions. With the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities in place, it hopes that more public sector specific standards will be progressed.
- The PIC notes that the long development time for standards is an important issue.
- He highlighted the PIC’s view that costing information is needed. For instance how much does it cost to implement IPSASs by a jurisdiction? How much does it cost the IPSASB to develop a standard and how does it allocate resources to its standard setting activities?

Mr. Blöndal shared the PIC’s views on the IPSASB’s standard-setting activities noting there are no concerns with the IPSASB’s application of due process. The PIC is very satisfied with this area of the IPSASB’s operations and do not see any risks or problem areas. Mr. Blöndal emphasized that the application of Due Process, or concerns about the lack of Due Process, are not issues of concern.

Mr. Blöndal noted that the formation of the CAG responded directly to one of the recommendations from the Governance Review Group and was welcomed by the PIC. It is an important forum for users of
IPSASs, to share views on the work program, standard-setting issues, as well as challenges and barriers to the adoption and implementation of IPSASs.

Mr. Blöndal emphasized the importance of having a diverse CAG membership. Mr. Blöndal also emphasized a need to expand the membership to include a parliamentarian perspective (parliamentary officials and other parliamentary experts). Mr. Blöndal noted that the PIC supports the IPSASB pursuing the two candidates discussed at the March 2016 PIC meeting, to help fill this important role on the CAG.

Mr. Blöndal concluded that the PIC felt that a high quality dialogue on key issues had been established with both IFAC and the IPSASB and that the PIC looks forward to developing a relationship and working with the CAG in a similar collegial manner.

The CAG members commented as follows:

- Mr. Müller-Marqués Berger extended his thanks to Mr. Blöndal for sharing comments and views from the PIC. Mr. Müller-Marqués Berger noted that the CAG is eager to establish a collegial relationship with the PIC.

- Mr. Müller-Marqués Berger, responded to a point raised by Mr. Blöndal regarding the cost to implement IPSASs. From the European Union perspective, often the cost of implementation is stressed as important. However, the conversation often neglects the benefits of IPSAS adoption. Mr. Müller-Marqués Berger believes that discussions need to consider both the costs and benefits of adoption.

- Mr. Müller-Marqués Berger reiterated the PIC comments that due process is robust and has been enhanced with the approval of the Due Process and Working Procedures document.

- Mr. Kraff extended his thanks to Mr. Blöndal for the presentation, noting it provided a good insight on the perspective of the PIC. As a representative of the European Commission, Mr. Kraff believes that concerns about IPSASB governance always seemed to be ‘artificial’ arguments. Mr. Kraff noted it was interesting to hear about two potential members with a parliamentary background being added.

- Mr. Blöndal responded that it is still too early to tell if governance has improved the uptake and adoption of IPSASs (or adoption intentions). It could very well be that lack of IPSASB governance in the past had provided a useful excuse for non-adoption. Now that governance is fully in place, it will be interesting to see the impact on adoption. Mr. Blöndal stressed that the governance concerns had been very real in Europe.

- Ms. Cearns shared a view that governance may have been used as an excuse by those who do not like the answers that applying IPSASs provides.

- Ms. Cearns noted there is a parliamentarian on the Financial Reporting Advisory Board (FRAB) in the UK. Interacting with the parliamentarian on the FRAB provided a parliamentarian perspective on what can and cannot be done with the information in financial. Such views are quite important.

- Mr. Carruthers, commented that concerns on IPSASB governance had been highlighted earlier in the EPSAS project. However, the enhancements to the governance processes have removed this item from the debate, which is quite positive. Mr. Carruthers further noted that he has travelled quite extensively since becoming IPSASB Chair and received specific comments that governance is not a concern. Again, this is quite encouraging.
4. IPSASB Introduction and Background (Agenda Item 4)

The IPSASB Chair, Mr. Carruthers introduced a number of important aspects of the IPSASB, including the following:

- The IPSASB’s membership composition;
- An overview of IPSASs and other pronouncements;
- The IPSASB’s Conceptual Framework;
- The processes for convergence with IFRS and consideration of Government Finance Statistics Guidelines;
- The IPSASB’s standard setting process;
- History of the phases of development of the IPSASB;
- The IPSASB’s strategic objective and work program;
- Summary of the process for the development of the next strategy and work program; and
- Highlights of momentum in the adoption and implementation of IPSASs.

Mr. Müller-Marqués Berger thanked Mr. Carruthers for the excellent IPSASB summary.

The CAG members commented as follows:

- Ms. Cearns agrees that there should be a balance between maintaining convergence with IASB standards and development of public sector specific standards. Also, she sees scope to consider further the boundary between private sector and public sector accounting standards—is it possible to apply IASB standards and concepts to address specific public sector issues? For example looking at the boundary issues when you move outside of “contractual” transactions. Mr. Carruthers responded that the IPSASB is trying to import new approaches from IFRS to the public sector where it is appropriate to explore them. For example, the performance obligation approach in IFRS 15, *Revenue from Contracts with Customers* is being considered in the Revenue and Non-Exchange Expenses projects. The projects are still ongoing but it may result in a standard that deals with commercial transactions similarly to IFRS 15. Further, a standard may be developed for the public sector non-commercial transactions which includes concepts based on the performance obligation approach. These are questions the IPSASB needs to ask in the consultation paper to obtain feedback from constituents.

- Ms. Arriagada Villouta asked if it is possible to have the presentations and power points made available. Such material may be useful in Latin America, as it may be more easily translated and provides information at a macro level. She stressed in her jurisdiction a key issue relates to infrastructure assets. There are a lot of issues and discussions related to accounting for weapon systems (military assets). It would be useful to have supporting material to help with this topic in her jurisdiction.

- Mr. Müller-Marqués Berger asked what type of supporting material would be helpful. Ms. Arriagada Villouta noted that something more than standards may be useful. It was then noted that the IPSASB has a project on its agenda to deal with infrastructure assets.

- Mr. Idris suggested broadening the consultation to involve more than just professional accountancy bodies—he suggested in particular institutions of government, such as national
treasuries and the offices of accountant generals and auditor generals. Further, Mr. Idris noted that adoption and implementation guidance is needed, and more specifically, there is a need for capacity building in the developing world. Mr. Carruthers noted that the boundary between standard setting and application and implementation is a topic of ongoing discussion. For example, should adoption and implementation guidance be in a standard and is that type of material within the purview of the standard setter or other bodies? Material and guidance exists on adoption and implementation that is not necessarily endorsed by the IPSASB, but is used by preparers. Mr. Carruthers also noted that the IPSASB has forums like the Public Sector Standard Setters Forum that may help engage the wider community. This may facilitate the development of practical guidance that would not be a standard. Further, the IPSASB may be able to link users and adopters to such guidance without adopting or endorsing it. Mr. Carruthers sees this as also a communications issue–where the IPSASB needs to use its contacts to engage stakeholders. Mr. Müller-Marqués Berger responded to the point on opening up the consultation process by noting that the process is open and public and has never been limited. The CAG can help the IPSASB engage more broadly with more institutions by publicizing the release of consultation documents.

- Mr. Carruthers was asked if the IPSASB’s Conceptual Framework would be revisited when the IASB’s Conceptual Framework is completed. Mr. Carruthers noted the IPSASB debated whether the Conceptual Framework should be a living document. When the Conceptual Framework was finalized the IPSASB reflected on the latest developments to the IASB Conceptual Framework project (which was, and is, still ongoing). There is still an open question as to whether the IPSASB should reopen its Conceptual Framework to consider the IASB’s when it is approved. However, there is a balance between modifying the Conceptual Framework, as opposed to leaving it as is and allowing it to be used in the development of standards.

- Mr. Carruthers noted there continues to be a challenge on how to engage with people and organizations, by balancing technical and more accessible non-technical discussions. The emphasis should be on why organizations should be interested in the IPSASB’s work and the information/benefits provided from IPSASs rather than detailed technical discussions.

- Mr. Blöndal, raised a question on adoption of IPSASs in various jurisdictions. The OECD along with the IFAC Accountability.Now. team has been developing case studies on adoption and implementation of IPSASs and there seems to be uncertainty on the number of adopters and how they adopt (direct IPSAS adoption vs. indirect through national standards). Mr. Carruthers noted that obtaining information on adoption and implementation is challenging and resource intensive. The IPSASB is always looking at new ways to both obtain this information and improve the quality of the information.

- Ms. Kiure-Mssusa commented on the direct adoption of IPSAS, noting that some jurisdictions such as EU are looking at indirect adoption because their legal and political system cannot have another party setting standards. Overall, it would be helpful to understand why jurisdictions choose indirect over direct adoption.

- Mr. Matthews noted that the balance between the maintenance of standards and the development of new standards is something to consider in work plan discussions. He further questioned how staff publications interact with due process. Mr. Carruthers noted that staff publications are not subject to IPSASB due process. For example, the staff paper published in 2015 on Sovereign Debt Restructuring, was an information document responding to some factual
inconsistencies about the requirements of IPSASs and highlighted the specific requirements in IPSASs relevant to debt restructurings. The IPSASB Technical Director and the IPSASB Chair reviewed the staff paper, but it was not an IPSASB publication. Mr. Carruthers noted that what is in the IPSASB’s remit may need ongoing debate.

- Mr. Matthews also noted that the issue of how individual CAG members can help with the various topics being debated by the IPSASB and how each member can help the IPSASB spread the word in our jurisdictions is important. CAG members can help with communications and messaging.

- Mr. Gisby noted there has been a lot of debate in Europe on whether IPSASs are fit for purpose. He asked whether the IPSASB has an approach on evaluating public sector issues in order to identify important issues and to prioritize them so that argument is no longer made. Mr. Carruthers noted that the IPSASB was exposed on the issue of governance and that social benefits has been a big gap in the IPSASB’s literature. Progress on both these issues, has helped with the acceptance of IPSAS in Europe. In addition, the response rate on IPSASB consultations is another area where improvement is needed to ensure broader engagement with constituents.

- Mr. Viana noted that Portugal sets its own standards, but those are based on IPSASs directly and must be approved by a decree-law enacted by the government. The Portuguese standard internalizes IPSASs with minor adaptations, namely excluding some options. Mr. Carruthers noted that adoption and implementation are jurisdictional issues. Jurisdictions are apprehensive to give up sovereignty to an outside party. Therefore, an endorsement mechanism is needed and there is an issue in ensuring that such an endorsement mechanism is objective. He noted that in the UK an endorsement mechanism exists for the adaptation of IFRS to the public sector.

- Ms. Colignon raised a concern related to alignment with Government Finance Statistics (GFS), noting the different objectives of GFS and entity-level accrual accounting. Aligning terminology may make sense, but sometimes it might not be helpful to align accounting treatments because of the different objectives of the two systems. Further, there are concerns in her jurisdiction that IFRS convergence projects do not always reflect public sector specificities. Mr. Carruthers noted that GFS alignment and IFRS convergence are important issues. The IPSASB is trying to be sensitive to existing GFS and IFRS guidance. The IPSASB is not required to align with either GFS or IFRS. However, the IPSASB sees it as important to consider opportunities to align on a project-by-project basis.

- Mr. Stanford acknowledged the issue of whether the Conceptual Framework should be a living document and noted that the IASB is considering this issue. Mr. Stanford prefers allowing the Conceptual Framework to be used to influence standards development for a period of time, before reopening and modifying it. Mr. Stanford noted that the development of staff papers is quite limited. For example, the staff paper on sovereign debt restructuring document responded to press reports with factual inaccuracies about the impact of IPSASs on debt levels following restructurings.

- Ms. Cearns noted that the IASB work plan is not expected to include major new projects. This may provide the IPSASB with a window to address public sector issues (because changes to IFRS will be less significant). Ms. Cearns also noted that even if some believe there are significant gaps in the IPSAS literature, it should be emphasized that the IPSASs are high quality.
standards and would be a big improvement on current standards for many jurisdictions that apply much lower quality standards (those on a cash basis or modified accruals).

- Ms. Arriagada Villouta notes that Chile has adapted, not adopted IPSASs to respond to Mr. Blöndal’s comments.
- Mr. Müller-Marqués Berger noted that the range and number of questions shows the importance of many of these issues and lively discussion expected to continue into the future.

5. IPSASB Project Presentation: Social Benefits (Agenda Item 5)

Introduction

IPSASB staff member, Paul Mason introduced the agenda item and gave a presentation outlining the contents of the IPSASB’s Consultation Paper (CP), Recognition and Measurement of Social Benefits.

The CAG members commented as follows:

- Mr. Ramkumar and Ms. Kiure-Mssusa sought clarification on how social benefits would be accounted for, and presented in the financial statements, under the different approaches set out in the CP. Mr. Mason provided examples to explain how the approaches would operate, and highlighted those areas where the IPSASB has yet to make decisions.

- Mr. Yousef questioned whether a separate standard on social benefits is necessary, and suggested that this issue could be addressed simply by removing the current scope exclusion in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

- Mr. Stanford explained that, for many entities, social benefits account for 30%—40% of their expenditure. Including these transactions within the scope of IPSAS 19 is unlikely to recognize the importance of these transactions, and will not provide the clarity and consistency required.

- Mr. Idris commented that there is a moral demand on the accounting profession to be doing more in the area of social responsibility. Mr. Müller-Marqués Berger explained that this is the reason the IPSASB is developing a standard (noting the reasons set out by Mr. Stanford previously). Mr. Carruthers agreed that there is a need to speak to society, and that this was why the IPSASB had developed RPG 1, Reporting on the Long-Term Sustainability of an Entity’s Finances, which may be a better place to discuss some of these issues.

Issue 1: Approaches to be included in the Exposure Draft

Mr. Mason outlined the first issue on which the IPSASB was seeking the CAG’s views – which approaches should be included in the Exposure Draft (ED)? Mr. Mason explained that the CP included a Preliminary View (PV) that the ED should include the obligating event approach and the insurance approach, but not the social contract approach. This was because the IPSASB had concerns that this approach may not be consistent with the IPSASB’s Conceptual Framework.

The CAG members commented as follows:

- Mr. Kraff supported the proposals, noting that in Germany social benefit schemes would best fit with the two recommended approaches.

- Ms. Kiure-Mssusa also supported the proposals, noting that in Tanzania a liability for the next year is recognized for certain programs delivering social benefits.
• Ms. Kiure-Mssusa commented that there is a debate as to whether this obligation should be reported as a liability or disclosed as a commitment. Those favoring the latter treatment consider that it is a future obligation for the next year and should not be recognized unless the expected tax receipts for that year are also recognized.

• Mr. Matthews supported the proposals based on the Conceptual Framework and the responses to the CP, and commented that he was more comfortable with the obligating event approach.

• Mr. Matthews commented that there could be difficulties with the insurance approach. Some insurance schemes, such as employment insurance, are not meant to be fully funded in a particularly year but over the “economic cycle”, which is becoming increasingly difficult to determine. He also cautioned the IPSASB to be careful that the description of the insurance approach doesn’t give the impression that “fully funded” schemes are preferable to other schemes.

• Mr. Gisby commented that within the European constituency, there were cultural influences that give rise to differing views between jurisdictions that followed more rule-based frameworks, and favored later recognition points compared to those jurisdictions that followed more principle-based frameworks and favored earlier recognition points.

• Mr. Gisby commented that there were concerns that the social contract approach, by limiting the liability that would be recognized to those that were legally due, would limit discussion about the sustainability and management of social benefit schemes.

• Mr. Viana commented that in Portugal, the most likely recognition point under the obligating event approach will be when the claim is approved, as the government can change the law up to that point.

• Mr. Viana also commented that it will be important that the obligating event approach takes into account and addresses implementation issues.

• Mr. Boutin commented that the social contract approach would present challenges and would not be applicable in all jurisdictions, for example those jurisdictions in which there is no taxation, such as the United Arab Emirates.

• Mr. Boutin commented that the insurance approach would only be applicable in some circumstances. He raised the question as to whether netting of inflows and outflows would be consistent with the Conceptual Framework, and considered that guidance would be needed to identify circumstances when the approach would be appropriate. The insurance approach is likely to be complex, and there would be concerns if it was mandatory.

• A number of members (Ms. Kim, Ms. Cearns, Ms. Sanderson, Mr. Idris and Ms. Colignon) supported the view that a future standard would need to be flexible and principles based to cover all the circumstances that could arise.

• Ms. Cearns commented that the recognition of a liability should be de-linked from the funding of that liability, and that guidance on determining the obligating event would be required.

• Ms. Cearns raised the question of the timing of the finalization of the insurance standard by the IASB, and how this would fit with the IPSASB’s timetable for this approach.

• Mr. Idris shared his experience in Nigeria, commenting that some subsidies had been withdrawn because of the potential for corruption. He also commented that the government has invested
significant funds in social programs such as school food programs recently. It is important that the standard addresses the root problems that societies face.

- Ms. Colignon commented that France supported the obligating event approach, and saw this as the overarching or fundamental approach. The insurance approach might possibly be appropriate in some circumstances. It would be helpful to have a hierarchy to provide guidance on which approach to follow in which circumstances.

- Mr. van Schaik asked if there were any examples of countries using these approaches. Mr. Carruthers gave the example of the US, where the information is disclosed in the financial statements. Ms. Ryan (IPSASB Member) explained how the principles of insurance accounting are being used in New Zealand for certain programs with the characteristics of insurance schemes.

- Mr. Ramkumar asked what would be the impact on developing countries. If they did not have good information to produce the financial statements, what would be the impact on budgets? Would people lose benefits if the government had not included the correct liabilities in its financial statements?

- Mr. Mason explained that the link to budgets depends on the jurisdiction, with most jurisdictions still using cash budgets. Where budgets are accrual based, the impact will depend on what recognition point is used, which is still being considered. In respect of benefit payments, these are set out in legislation, and are not affected by whether or not they are recognized as a liability. Mr. Carruthers added that the underlying question is about the quality of information used for financial reporting. Requiring governments to account for items such as social benefits necessitates better information for accounting purposes, which can lead to better management.

**Issue 2: Application of the insurance approach**

Mr. Mason outlined the second issue on which the IPSASB was seeking the CAG’s views – the application of the insurance approach. Mr. Mason explained that, as a result of the comments received on the CP, staff was recommending that the application of the insurance approach be limited to those schemes that were fully funded from contributions. Staff was also recommending that the IPSASB refer preparers to the forthcoming IFRS on insurance contracts rather than developing requirements in an IPSAS. This would be appropriate if the IPSASB agreed to limit the application of the insurance approach.

The CAG members commented as follows:

- Mr. Müller-Marqués Berger sought clarification that if the application of the insurance approach was limited to fully funded schemes, subsidized schemes would follow the obligating event approach. Mr. Mason confirmed that this was the case.

- Mr. van Schaik asked if this meant that any subsidy – even a dollar or a euro – would mean that the scheme would need to be accounted for under the obligating event approach. Mr. Mason explained that the IPSASB still needed to discuss the boundary, but that the feedback the IPSASB has received suggested the insurance approach was not appropriate for subsidized schemes. Mr. Mason explained that there would be a need to define what was meant by “fully funded”, giving the Canada Pension Plan as an example.

- Ms. Colignon sought clarification as to whether there would be a contributory scheme / non-contributory scheme boundary, and Mr. Mason commented that the IPSASB still needed to consider what was meant by “fully funded” and where the boundary would lay.
• Ms. Cearns cautioned against spending too much time debating the boundary issue in advance of the IASB publishing the insurance standard, as the boundary may fall out naturally from the standard.

• Mr. Viana commented that the insurance approach should only address defined benefit schemes.

**Issue 3: Scope of the project (types of benefits covered)**

Mr. Mason outlined the third issue on which the IPSASB was seeking the CAG’s views – the scope of the project, emphasising the difficulty some respondents to the CP had had with the concept of “social risks”, and the staff proposals to extend the scope of the project slightly to address these concerns.

The CAG members commented as follows:

• Ms. Sanderson commented that it could be difficult to understand what the proposals would mean in practice, and asked for examples of the types of benefits that could be covered by the scope proposed in the agenda papers. Mr. Mason provided the example of the National Health Service in the United Kingdom.

• Ms. Sanderson cautioned against adopting too wide a scope for the project, citing the risk of “scope creep”. She recommended that the IPSASB limit the scope of the project to narrower “welfare” style schemes.

**6. IPSASB Project Presentation: Revenue (Agenda Item 6)**

*Introduction*

Mr. Heffernan (Technical Director, New Zealand External Reporting Board) introduced the agenda item and gave a presentation outlining:

• The current IPSAS standards, their links to IFRS and IFRS 15, *Revenue from Contracts with Customers*;

• The project objectives; and

• The two approaches to classifying revenue transactions – performance obligation/no performance obligation (referred to as the performance obligation approach) or exchange/non-exchange.

The CAG members commented as follows:

• Mr. van Schaik commented that IFRS 15 addresses contracts with customers, and excludes government grants, which are still dealt with under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Could this provide an opportunity for the IPSASB to work with the IASB to develop a joint standard? Mr. Stanford commented that while this would be desirable, the IASB did not have a project to address IAS 20, and the subject was not even in the IASB’s research pipeline.

• Ms. Cearns commented that she found the papers difficult to follow and asked when the performance obligation approach could be extended, and how.

• Ms. Cearns commented that including expenses in the performance obligation approach would be problematic. Although it sounded attractive to maintain the link with revenue, having such a wide scope would make it difficult to establish any rationale.
• Mr. Müller-Marqués Berger explained his understanding of the approaches using a diagram drawn at the flipchart.

• Mr. Stanford explained that, under the performance obligation approach, Category A is a mirror of IFRS 15. Category B is where performance obligations can be identified, but these are not in the scope of IFRS 15 because they do not include all of the required features. Category C is where no performance obligations exist. These transactions will be covered by a residual standard (currently IPSAS 23, although it is expected that it would cover fewer transactions if a performance obligation approach is adopted).

• Ms. Cearns commented that the principal versus agent arrangement issue needs to be covered for completeness. She asked how common such transactions are in the public sector, and Mr. Carruthers noted that tax collection, where an agency or department collects tax for the government as a whole, is a common example.

• Ms. Colignon commented that IFRS 15 will come into effect in 2018, and that lots of issues are already being raised. She expressed concern about trying to twist a standard that has not yet been implemented and where the issues are not yet fully known.

• Ms. Colignon commented that while there may be fewer transactions in Category C under the performance obligation approach, these will still include, for example, tax revenue, which is a significant part of government revenue. Such transactions need to be given sufficient emphasis.

• Ms. Kiure-Mssusa commented that the regulatory regime in some countries may mean that symmetry between revenue and expenses may not be appropriate. Where central government gives a grant to local government to build a road or a hospital, local government can recognize revenue in Category A as there is a performance obligation. However, if the funding has been voted by Parliament, the government’s only obligation will be to transfer the funds, so this would not fall within Category A for expenses.

**Issue 1: Extent to which a performance obligation approach can be extended beyond revenue from contracts with customers**

The CAG members commented as follows:

• Mr. Heffernan outlined the first issue on which the IPSASB was seeking the CAG’s views – the extent to which a performance obligation approach can be extended beyond revenue from contracts with customers. Mr. Heffernan explained the approach, focusing specifically on Category B transactions and explaining how the characteristics had been modified from those in Category A/IFRS 15. He asked the CAG whether these modifications had gone too far or not far enough.

• Ms. Cearns commented that the modifications may have gone further than necessary. The approach could be extended to include the delivery of all goods and services, not just delivery to customers. Otherwise, the performance obligation approach gets circular – a performance obligation is satisfied by delivering a performance obligation.

• Mr. Carruthers commented that in the public sector, the main focus would be on services.

• Ms. Cearns commented that services are more complex, and focusing on these would be helpful, although transfers of goods do occur.

• Mr. Müller-Marqués Berger asked if this view was generally supported by the CAG.
• Ms. Kim commented that she has difficulty with the scope. IFRS 15 scopes out transactions that do not involve customers; extending this makes the scope less clear. The classification would be based on whether a performance obligation exists, which may not be clear.

• Mr. Yousef commented that he supported the comments made by Ms. Cearns. He commented that one of the reasons IFRS 15 was issued is because companies were bundling goods and services and, under IAS 18, it was difficult to know when to recognize revenue. He commented that IFRS 15 is control based, whereas the other revenue standards are risk and rewards based.

• Mr. Carruthers responded that IPSAS 23 is also control based – the first question to ask is whether an entity has an asset.

• Mr. Matthews commented that he was not convinced that the performance obligation approach will provide better, more consistent information than the exchange/non-exchange approach.

• Ms. Cearns discussed the boundary between Category B and Category C transactions. Grants may be provided for a range of activities, some of which have performance obligations and some do not. In such cases should the grant be split between the categories, or should it all be treated as Category C because splitting it is too difficult?

• Mr. Carruthers referred to Ms. Colignon’s earlier point that the majority of transactions are taxes and transfers – Category C. There are some issues with the application of IPSAS 23, so should this be an important focus of the project? For expenses, the driver for the project is the lack of a standard, and stakeholders are saying we should have one. This might mean reversing the categories – starting with a discussion of what are currently Category C transactions. This might improve communication with stakeholders without changing much of the thinking.

**Issue 2: Implementation issues with IPSAS 23**

Mr. Heffernan outlined the second issue on which the IPSASB was seeking the CAG’s views – implementation issues with IPSAS 23. He discussed the following issues that have been identified to date:

• Conditions vs. restrictions;
• Issues highlighted through interviews;
• Timing issues;
• Capital grants; and
• Goods and services in-kind.

The CAG members agreed that the main issues had been identified.

Mr. Heffernan introduced the potential modifications to IPSAS 23 to address timing issues:

• Other resources and other obligations; and
• Presentation options.

**Other resources and other obligations:**

Mr. Heffernan commented that one issue that public sector entities struggled with was a day one gain where there was no condition attached to the transfer of resources (as defined in IPSAS 23). The other resources and other obligations approach would be effectively a revenue and expense- led approach.
The CAG members commented as follows:

- Mr. Müller-Marqués Berger noted that this approach is a continuation of the discussion that took place when developing the Conceptual Framework. Mr. Stanford provided more information on Framework discussions.
- Mr. Müller-Marqués Berger commented that international organizations also struggle with day one gains, and that he would support the approach as it helps presentation in these circumstances.
- Mr. Kraff commented that deferring revenue and expense recognition was essential for the European Commission. Many schemes involve pre-financing and this should be recognized as a liability for the recipients, even if it does not meet the Conceptual Framework definition of a liability.
- Mr. Boutin commented that he was not comfortable with overriding the definitions of elements in the Conceptual Framework. He understood the issue – wishing to match – but was not comfortable with the approach. If an entity has unrestricted cash, it has unrestricted cash, not a liability.
- Mr. Carruthers asked why the European Commission gave cash in advance (pre-financing). Mr. Kraff explained that pre-financing provides a float to finance projects that are in the political interests of the EU. Beneficiaries may have limited liquidity, and projects might not proceed without pre-financing.
- Mr. Stanford commented that the use of other resources and other obligations would not be inconsistent with the Conceptual Framework. However, other resources and other obligations have not been used at standards level so this would be a major development. The IPSASB had also considered presentation options and recycling (similar to the Other Comprehensive Income approach in IFRS) during the development of the Conceptual Framework and had not supported such approaches.
- Mr. van Schaik commented that he shared Mr. Boutin's concerns over deviating from the Conceptual Framework so soon after its publication, particularly as the IPSASB had rejected deferred inflows and outflows.
- Mr. Stanford commented that while the IPSASB had rejected deferred inflows and outflows as elements, the Conceptual Framework allowed the use of other resources and other obligations to meet the objectives of financial reporting.
- Ms. Sanderson commented that in Australia, states and territories recognize revenue once you gain control of the cash. This can be an issue where funding is brought forward. Ms. Sanderson also noted that the distinction between fees for services and grants is becoming blurred and such a differentiation can be difficult.

**Issue 3: Presentation options**

Mr. Hefferman set out options for amending the presentation of the statement of financial performance, for example having different sub-totals contained within surplus or deficit. Another approach would be to take unused revenue to a specific component of net assets/equity and then recycle this.
The CAG members commented as follows:

- Ms. Cearns commented that she did not generally support the presentation options as they fudged the issue. Having said that, an OCI approach would allow recycling and would allow all the gains to go through the performance statement. However, it is still a fudge as you haven’t defined what revenue is. This would be more consistent with the private sector, but it would be preferable to be clearer about what constitutes financial performance.

- Ms. Kiure-Mssusa commented that this approach seemed to be reverting to a previous version of IAS 20 which required amounts to be recognized in equity, then recycled.

7. IPSASB Project Presentation: Non-Exchange Expenses (Agenda Item 7)

Non-Exchange Expenses

The IPSASB Technical Director, John Stanford introduced the topic. Both Mr. Müller-Marqués Berger and Mr. Stanford noted that the discussions on the Revenue project had already covered a number of the issues. Mr. Stanford acknowledged the input and work of the staff of the Governmental Accounting Standards Board, particularly Amy Shreck, Research Fellow, and David Bean, Director of Research and Technical Activities. The reasons for the project were:

- The lack of an IPSAS dealing with non-exchange expenses;
- The proposed narrower scope of the social benefits project, which means that a larger number of transactions fall within the scope of the Non-Exchange Expenses project.

Mr. Stanford noted that the linkages of this project with the Revenue and Social Benefits projects have created some difficulties. The exchange/non-exchange dichotomy is key to IPSASB’s literature. Views on how well this distinction has been working differ. Examples of non-exchange transactions include grants to other entities, which include general and specific grants and grants for the construction of capital assets. Many public sector services are provided at zero or nominal cost.

There are two broad recognition approaches—the performance obligation approach and the present obligation approach. They are not polar opposites and for many transactions recognition requirements will coincide. For example in many cases the fulfilment of conditions involves the satisfaction of a performance obligation. Whereas, the present obligation approach involves the identification of obligations that are present rather than future obligations. The linkage with the Revenue project gives rise to the issue of symmetry for transactions from the perspectives of resource providers and resource recipients.

Mr. Stanford noted that the five step model for the performance obligation approach drawn from IFRS 15 had been described in detail by Mr. Heffernan. The model would be “flipped” for expense transactions. In the context of enforceability there is a public sector issue with budget authorizations and appropriations—some take a view that an obligation is not enforceable if there is no budget authorization or appropriation. There is also a need to look at commercial substance more broadly in the context of consideration.

Mr. Stanford noted that questions had already been asked about Category A transactions—in particular why expense transactions should be outside of the scope. Category B transactions are those with performance obligations, but not as defined in IFRS 15 and Category C transactions do not contain either explicit or implicit performance obligations.

The CAG members commented as follows:
• Ms. Colignon suggested that the distinction Exchange/Non-exchange should be retained as an overarching principle as this is how transactions have been described up to now in the public sector and it seems to reflect reality. The performance obligation concept could then be introduced as a way of analysing transactions to help determine when revenue should be recognised, especially for those transactions that are outside the scope of IFRS 15 but still host performance obligations.

Issue 1: Application of performance obligation approach to expense transactions

Can a performance obligation approach be applied to non-exchange expenses?

The CAG members commented as follows:

• Ms. Cearns supported exploring whether the performance obligations perspective could be used to develop sub-categories of non-exchange transactions, so that a more detailed, more complex taxonomy for such transactions could be considered. Although this would be a useful approach, it could be the case that, after considering a more complex set of classifications of transactions, the conclusion could be that the current more simple approach (exchange/non-exchange) makes more sense.

• Mr. Stanford noted that the project is at Consultation Paper development stage. He explained that the IPSASB had decided to develop a combined Consultation Paper covering both revenue and expenses because the IPSASB was concerned about the extent of the potential duplication of material if there are separate consultations. In response to a question by Mr. Müller-Marqués Berger the CAG indicated general support for this explanation.

• Mr. Stanford expressed a view that Ms. Cearns appeared to support considering if the performance obligation approach works in the context of non-exchange expense transactions. Mr. Carruthers expressed a view that it made more sense to deal with the non-exchange side first as performance obligations are likely to be more immediately relevant to exchange transactions. There is currently a gap in the literature for many non-exchange transactions, so that is the important area to focus on.

• Mr. Van Schaik expressed reservations whether the IPSASB should prioritize revenue over expenses, because IPSASB already has a standard–IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)–dealing with non-exchange revenue. Therefore Mr. Van Schaik considered that non-exchange expenses should be prioritized.

• Mr. Carruthers expressed a view that the IPSAB did not need to unpick the approach to exchange expenses.

• Mr. Müller-Marqués Berger and Mr. Carruthers both considered than many of these considerations relate to the structure of the Consultation Paper.

• Mr. Viana proposed a “mirror analysis” of IPSAS 23 to address non-exchange expenses and said that he had taken such an approach in the development of the public sector accounting model in Portugal. Mr. Stanford concurred that one vehicle to deal with this topic is to “mirror” IPSAS 23. He said that a further option identified by the IPSASB is to address non-exchange expenses by expanding the scope of IPSAS 19.

• Mr. Stanford also suggested that a further option is to develop a separate standard and test it against IPSAS 23.
Ms. Sanderson highlighted the complexity of the agenda papers and emphasized the need for care in drafting and structuring the CP in order to make sure that it is accessible for readers. The relationship between public sector for-profit entities and private sector entities in developing proposals on the performance obligation approach should also be considered.

Issue 2: Definition of a non-exchange transaction

How can the definitions of exchange transactions and non-exchange transactions be improved and made more useful for stakeholders?

The CAG members commented as follows:

- Mr. Stanford indicated that one driver for using the performance obligation approach is the difficulty of implementing the distinction between exchange and non-exchange transactions. He asked whether it is feasible to modify the definitions and, if so how? He also asked for any experiences of CAG members with the definition of a non-exchange transaction.

- Ms. Cearns asked for an expansion of the point that preparers had difficulty identifying an onerous contract. Mr. Stanford said that the difficulty appeared to be determining a point at which a contract became onerous. Mr. Mason clarified that the issue is whether a contract or binding arrangement is onerous, or, rather, whether it contains two components: an exchange component and a non-exchange component. Ms. Cearns suggested that, in making such an assessment commercial substance should be considered.

- Mr. Müller-Marqués Berger asked whether the exchange/non-exchange distinction works well. The CAG members did not provide specific examples of real-world problems they had encountered in deciding whether transactions fell into one or the other category (i.e. exchange or non-exchange).

- Returning to the classification of transactions, Mr. Boutin said that he had tried to reconcile the ABC categories and questioned whether this categorization is an over-simplification. The categorization requires quite a detailed thought process in order to determine the accounting treatment he suggested that transactions might be refined into two categories. There might be an alternative classification approach, although he had not fully worked out what this might be way to classify transactions, although haven’t worked out what these would be; the analysis on the whiteboard table could be a way to improve this simplified distinction.

- Ms. Colignon commented that the analysis focused on goods and services. While it is interesting to segregate the different transactions, the exchange/non-exchange distinction seemed to re-emerge. Mr. Stanford said that he interpreted this point as that IPSASB should retain a discussion of the performance obligation approach but as a way to determine whether a present obligation has arisen.

- Ms. Colignon asked whether the performance obligation approach is in opposition to exchange/non-exchange approach. Mr. Stanford said that he thought that there had already been some discussion of this in the earlier session on revenue. It can be over-simplistic to set up the two approaches as opposites.

- Ms. Cearns suggested that analysis would help ascertain whether there is a group of transactions that is really non-exchange to distinguish from those that do have a performance obligation.
Carrying out such a detailed analysis and developing a comprehensive approach might lead to a conclusion that it is too complex and not really helpful.

- Mr. Stanford stressed that the IPSASB wanted to publish a Consultation Paper that is understandable.

The next part of the discussion revolved around a diagram on the whiteboard that Mr. Müller-Marqués Berger developed to illustrate the current structure of the CP and a possible alternative structure (see below).

### Table One: Whiteboard Diagram:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Performance Obligation Approach</th>
<th>Exchange/Non-Exchange Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognition</td>
<td>Category A-Revenue</td>
<td>Category B-Revenue</td>
</tr>
<tr>
<td>Expense recognition</td>
<td>Category A-Expense</td>
<td>Category B Expenses</td>
</tr>
</tbody>
</table>

**Summary**

- Mr. Müller-Marqués Berger turned attention to the structure of the CP. Referring to an illustration (noted in Table One above) he noted that the CP was currently structured in what he termed ‘a columnar way’—that is the discussion of each approach included both revenue and non-exchange transactions. He suggested that a better approach might be to adopt a ‘row-based structure’, in which firstly revenue transactions and then non-exchange expense transactions would be considered from the perspective of both approaches. He encouraged the IPSASB to consider whether a different structure might be more helpful to readers.

- Mr. Carruthers expressed a view that the CP should start by firstly considering Category C transactions—where there is clearly no performance obligation—before considering the other categories, i.e. start at the right hand side of the whiteboard and move to the left.

### 8. IPSASB Technical Director’s Report on Work Plan (Agenda Item 8)

The CAG considered the 2016-2020 Work Plan of the IPSASB. Mr. Stanford updated the CAG on the current projects in progress, the recently paused project on Emissions Trading Schemes, projects that are on the Work Plan, but have not yet started, and the ongoing Improvements project.

The CAG members commented as follows:

- Mr. Ramkumar questioned the purpose of sharing the work plan information and any actions required by the CAG. Mr. Stanford clarified that the purpose of the information was to provide an overall indication of the high level direction of the IPSASB’s work and also noted that it is likely that some of these projects will be discussed at the next CAG meeting. The Chair, Mr. Müller-
Marqués Berger, added that the information might also be helpful in the context of the CAG providing potential suggestions of other projects that might need to be on the work plan.

- Ms. Cearns commented on the Leasing project which is currently being discussed in the UK and noted the controversy of the topic observed in both the private and the public sector, especially around the pervasive impact project result in potential breaches of debt covenants. Ms. Cearns also commented on the IASB’s approach around lessor accounting and the difficulty with fulfilling the primary purpose of recognizing obligations on the balance sheet, raising the concern that IPSASB will have to consider the scope of its work in lessor accounting.

- Ms. Sanderson noted that it would be helpful to see a forward agenda for the December meeting to assist members of the CAG to better assess where they could add value. She also commented on the Infrastructure project, noting that the scope could expanding substantially in scope. The Chair acknowledged the comment and noted that the scope will likely be discussed by the Board in December.

9. Closing Remarks (Agenda Item 9)

Mr. Müller-Marqués Berger was very impressed with the quality of discussions and level of detail in this first meeting of the IPSASB CAG. He recalled his first meeting as a new IPSASB member and how he struggled with both the complexity of some agenda items and the pace of discussions. He was greatly encouraged to see such strong interventions by such a wide number of members.

Mr. Müller-Marqués Berger reflected on the IPSASB CAG value proposition and noted this is something to continue to think about from now until the next meeting, when it will be revisited and discussed.

Mr. Müller-Marqués Berger reflected on the IPSASB work plan and some key projects. He said that staff had been taking detailed notes which would be used to provide feedback to the IPSASB at the June meeting and be used for the IPSASB CAG minutes.

Mr. Müller-Marqués Berger provided a high level summary of points:

- Social benefits—considered proposals for the appropriateness of the obligating event approach and circumstances when the insurance approach may be appropriate. Important to highlight some CAG views that that narrowing the scope may be beneficial to ensure the project can proceed.

- Revenue—May be better to focus on the provision of goods and services, rather than performance obligations. Also, from a public sector perspective it may be better to approach the topics starting with category C transactions and then moving to Category A (in reverse of the IPSASB approach). This would appear a better fit for the public sector. Might be beneficial to clarify what revenue means and consider presentational approaches to deal with the issues. Proposals were discussed on how to deal with revenue transactions covering multiple periods and concerns noted on how to apply the Conceptual Framework to such transactions (including whether using other resources and other obligations is appropriate).

- Non-Exchange Expenses—concern raised that the comprehensive approach may not be appropriately considering exchange expenses. Closing the gap in standards by developing non-exchange expenses was emphasized by CAG members. Also it was recommended that, in drafting the CP, the IPSASB ensure that the paper is accessible to readers. Further, it was
recommended that the IPSASB should take this opportunity to explore the exchange and non-exchange definitions in order to identify improvements.

The ‘Report Back’ process was explained to CAG members, noting that CAG members’ views are attributed to CAG members and documented in the minutes which are made available to the IPSASB. The CAG does not seek a consensus view. The IPSASB considers the views and reports back to the CAG the response to each view.

Mr. Gunn provided a high level overview of some topic which may be on the agenda in December, including administrative items such as the process for IPSASB CAG Chair elections and how those interested can be involved.

Mr. Müller-Marqués Berger thanked everyone for a successful first CAG meeting and closed the public portion of the meeting.