Approved Minutes of the Meeting of the

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Held on December 8-11, 2015 in Toronto, Canada

1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance

	Voting Members	Technical Advisors
Present:	Andreas Bergmann (Chair)	Todd Beardsworth (Ms. Ryan)
	Jeannine Poggiolini (Deputy Chair)	Lindy Bodewig (Ms. Poggiolini)
	Stuart Barr	Takeo Fukiya (Mr. Izawa)
	Michel Camoin	Fabrizio Mocavini (Mr. D'Amore)
	Ian Carruthers	Renée Pichard (Mr. Barr)
	Robert Dacey	Rasmimi Ramli (Wan Sulaiman)
	Mariano D'Amore	Juan Moreno Real (Ms. Mendez)
	Kenji Izawa	Riaz Rehman (Mr. Yusuf)
	Aracelly Méndez	Joanna Spencer (Mr. Youngberry)
	Rod Monette	David Watkins (Mr. Carruthers)
	Leonardo Nascimento	Marc Wermuth (Mr. Bergmann)
	Angela Ryan	
	Adriana Tiron Tudor	
	Wan Selamah Wan Sulaiman	
	Tim Youngberry	
	Abdullah Yusuf	
Apologies:	Rachid El Bejjet	Baudouin Griton (Mr. Camoin)
		Leona Melamed (Mr. Monette)

	Non-Voting Observers
Present:	Dinara Alieva (UNDP)
	Sagé de Clerck (IMF)
	Jeriphanos Gutu (UN)[1]
	Guohua Huang (IMF)
	Martin Koehler (European Commission)
	Jani Laakso (World Bank) (Tuesday-Thursday)
	Derek Peters (UN)
	Istavan Varjas (Eurostat)[2]
Apologies:	Jón Blöndal (OECD)
	Chai Kim (ADB)
	Delphine Moretti (IMF)
	Ian Mackintosh (IASB)
	Chandramouli Ramanathan (UN)
	Darshak Shah (UNDP)
	Paul Sutcliffe, IPSASB
	John Verrinder (Eurostat)
	IPSASB Staff
Present:	Gwenda Jensen, IPSASB
	James Gunn, Managing Director, Professional Standards (Wednesday-Friday)
	João Fonseca, IPSASB
	John Stanford, IPSASB
	Paul Mason, IPSASB
	Ross Smith, IPSASB
	Wayne Travers, IFAC (Tuesday-Wednesday)

[1] Jeriphanos Gutu attended the meeting in place of Chandramouli Ramanathan

[2] Istavan Varjas attended the meeting in place of John Verrinder

The Chair, Andreas Bergmann, welcomed members to Toronto for the final meeting of 2016. He noted that it was the last meeting of retiring members Mariano D'Amore, Wan Selamah Wan Sulaiman and Tim Youngberry and that there would be social opportunities for members to say farewell to them. The Chair noted that Guohua Huang had resigned as a member following his appointment to a new post in the Fiscal Affairs Division of the International Monetary Fund (IMF). The Chair informed the IPSASB that Guohua had been appointed as the observer of the Fiscal Affairs Division of IMF and would therefore be maintaining his involvement with the IPSASB.

Members approved the minutes of the meeting from September 22-25, 2015.

Istvan Vargas, the Eurostat observer, provided an update on the European Public Sector Accounting Standards (EPSAS) project. Seven grants had been awarded to member states in December 2015 to assist in various projects on transitioning to accrual-basis financial reporting. Eurostat had established the first two of a series of task force cells. The cell on First Time Adoption is developing guidance on the first time implementation of EPSAS and a glossary of terms, while a Cell on Governance Principles would meet for the first time in mid-December. The First Time Adoption Cell is expected to issue a guidance note on opening balance sheets in mid-2016. Other ongoing work includes developing a glossary of terms in use. Istvan confirmed that IPSAS will be a 'strong reference point' for developing EPSAS. A gradual approach is seen as appropriate in the short term, bearing in mind accountancy capacity in the member states and the need for transparency. It was noted that Germany (at the state level) has started to participate in the work, although this did not indicate acceptance of the objectives of the EPSAS project.

Members noted the summary of the International Accounting Standards Board's (IASB) work plan, the IASB tracking table and the GFS tracking table. The Acting Technical Director said that at the World Standard Setters Conference in London in late September the IASB had indicated that the intention was to issue the Leases Standard in the last quarter of 2015 or very early in 2016. Assuming that these timelines were met staff intended to bring a project brief on Leases to the March 2016 meeting.

2. Public Sector Combinations (Agenda Item 2)

Staff presented an Issues Paper and draft Exposure Draft (ED). The Issues Paper raised the key issues to be determined before the IPSASB could consider approving the ED.

Scope and Definitions

The Issues Paper included a proposal to reorder the definitions in the Exposure Draft to group them by type of public sector combination. Members agreed that this would be helpful for preparers, and noted that a similar approach had been used in other standards. The IPSASB therefore agreed that the definitions should be reorganized.

Classification of public sector combinations

At its September 2015 meeting, the IPSASB agreed the approach to classifying public sector combinations in the ED. Where no party to the combination gains control of operations, the combination is an amalgamation. Where one party to the combination gains control of operations, this creates a rebuttable presumption that the combination is an acquisition. The main factors to consider in rebutting the presumption are the transfer of consideration and the decision-making process. At its September 2015 meeting, the IPSASB had agreed to also have regard to the objectives of financial reporting and the qualitative characteristics (QCs). The Issues Paper identified this as the main issue to be resolved.

The IPSASB agreed that the objectives of financial reporting and the QCs should inform an entity's consideration of the rebuttable presumption, but should only be referred to as specific factors in exceptional circumstances. The IPSASB directed staff to redraft these sections of the ED for consideration at subsequent sessions.

Other Matters for Consideration

The IPSASB considered the other Matters for Consideration raised in the Issues Paper, and supported staff's recommendations, which were reflected in the drafting of the ED. These Matters for Consideration covered the accounting for amalgamations, accounting for acquisitions, transitional provisions, amendments to other IPSASs, and the Basis for Conclusions.

Specific Matters for Comment

The IPSASB discussed the proposed the Specific Matters for Comment (SMCs) in the ED. The IPSASB agreed to streamline the SMCs by shortening and combining the proposed SMCs relating to the classification of public sector combinations.

Page-by-page Review

The IPSASB undertook a page-by-page review of the ED and identified a number of minor amendments to be made to the ED.

Subsequent sessions

Staff presented extracts from the ED, covering the authoritative sections of the ED dealing with the classification of public sector combinations. The IPSASB supported staff's proposals, subject to some minor drafting changes.

Between sessions, staff had received some comments regarding the approach to the residual amount in an amalgamation. Staff presented a number of options for the IPSASB to consider. The IPSASB agreed that the residual amount should comprise all components of net assets/equity, including the revaluation surplus. The IPSASB acknowledged that some stakeholders may have concerns about the treatment of the revaluation surplus and similar components of net assets/equity. The IPSASB agreed to refer to this issue in the SMC on the residual amount, and to include a paragraph in the Basis for Conclusions explaining the IPSASB's approach.

The IPSASB then undertook a final review of the ED, and agreed some minor changes. The IPSASB approved the ED. Sixteen members voted in favor with one member absent The IPSASB agreed that the response period should run from the end of January 2016 until June 30, 2016.

3. Public Sector Financial Instruments (Agenda Item 3)

Monetary Gold – Definitions

The IPSASB agreed with modifications to the "reserve asset" definition to align more closely with Government Finance Statistics (GFS) terminology. The IPSASB also agreed that further explanation should be added to highlight the importance the GFS terminology has in setting out the reserve asset definition.

Monetary Gold – Specific Matter for Comment (SMCs)

The IPSASB agreed to include two SMCs for the chapter. One SMC will ask if there should be an option to select a measurement basis (current value or historical cost) based on their intention in holding monetary gold assets. A second SMC will ask which measurement basis is most appropriate for monetary gold – current value or historical cost.

Currency in Circulation – Nature of Currency

The IPSASB formed a view that both notes and coins derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. The IPSASB agreed that a draft preliminary view should be developed for consideration at the March 2016 meeting.

Currency in Circulation – Approaches

The IPSASB directed that accounting for currency in circulation should be driven by the economic substance of the transactions. The IPSASB therefore directed staff to update the terminology in the next version of the CP. The CP identifies two approaches for accounting for currency in circulation

Currency in Circulation – Measurement

The IPSASB discussed measurement. The IPSASB agreed with the staff analysis that historical cost, market value, and on limited occasions, cost of fulfillment may be viable measurement bases.

Next Chapter for Development

Staff presented an overview of the final chapter of the CP, covering accounting for IMF Special Drawing Rights (SDRs) and IMF Quota Subscriptions.

The IPSASB directed that there should be a more detailed explanation of the different types of IMF transactions and their nature, with an analysis of similarities to, and differences from, other more common financial instruments. Examples will be developed to assist constituents in understanding each transaction. The IPSASB noted that an important distinction to highlight and discuss in the chapter is how SDRs are both a financial instrument and a unit of measurement for other financial instruments such as loans.

The IPSASB identified other issues to consider in the development of the chapter as follows:

- How SDR allocations are accounted for under the circumstances when they allocation increases or decreases from the initial allocation.
- How and when is interest settled on SDR holdings;
- Different approaches for accounting for SDRs in different jurisdictions;
- Is the investment in the IMF (IMF quota subscription) similar to investments in other regional international entities such as the Asian Development Bank or the Bank of International Settlements? Are the investments similar to loans provided by commercial banks or an actual investment in the organization;

- Who is the counterparty to transactions with the IMF, is the IMF or other members. Is that the same for other international organizations or development agencies? Does the nature of the counterparty change the economic substance of the transaction;

4. Financial Instruments: Update of IPSAS 28-30 (Agenda Item 4)

The IPSASB considered a project brief for the updating of the current IPSASs on financial instruments – IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, which will primarily focus on maintaining convergence with the IASB literature, in particular IFRS 9, *Financial Instruments,* which was issued in 2014, and mainly impacts IPSAS 29. The IPSASB agreed with the proposed scope of the project.

Key Issues

The IPSASB discussed key changes introduced by IFRS 9, for which the public sector implications will be explored:

- The classification of financial assets;
- The move from an incurred loss impairment model to an expected loss model; and
- Hedge accounting requirements;

The IPSASB agreed that the policy document, *Process for Reviewing and Modifying IASB Documents*, will be followed in considering the IFRS 9 changes, as the project is maintaining the alignment of existing IPSAS with the IFRS from which they are primarily drawn.

The IPSASB decided to consider the development of additional application guidance for public sector specific securitizations (where future resources from, for example, sovereign rights, taxation rights or other rights not recognized in the statement of financial position are securitized) in this project because accounting for securitizations is already covered by existing IPSASs. Accounting for public sector securitizations was previously in the scope of the public sector specific financial instruments project.

The IPSASB noted that given the complexity and specialty of financial instruments accounting requirements, it might be helpful to consider the development of an educational item, such as a table outlining the main changes in requirements from existing IPSAS standards to the revised requirements. This was supported by the IPSASB as it would allow for constituents to reflect on the proposed changes compared to what is already in IPSASs.

The IPSASB approved the project brief with a view to commencing the project in 2016.

5. Employee Benefits (Agenda Item 5)

The IPSASB discussed the remaining key issues in the revision of IPSAS 25, *Employee Benefits*.

Net Interest Approach

The IPSASB considered the net interest approach as proposed in the draft IPSAS 25 and compared it the requirements in Government Finance Statistics (GFS) reporting guidelines.

The IPSASB concluded that there are differences in presentation, recognition and measurement:

(a) **Presentation.** GFS presents the increase in liability for benefit entitlements due to the passage of time in *property expense for investment income disbursements,* while in IPSAS 25 it is presented in *profit or loss*.

(b) **Recognition.** GFS does not require the recognition of an interest expense/revenue in the employers' accounts due to the passage of time of recognizing the net defined benefit liability (asset), when the pension plan has a surplus/deficit, while in IPSAS 25 it is recognized in profit or loss.

(c) **Measurement.** In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market value. Therefore, unlike IPSAS 25, no additional calculation to include the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market value. This may give raise to different valuations between IPSAS 25 and GFS (for example: loans are measured at nominal values in GFS and usually at amortized cost in IPSAS).The IPSASB also concluded that the different accounting treatments in IPSAS and GFS reporting guidelines are due to their different objectives and not because there is a public sector specific issue that warrants departure from IAS 19, *Employee Benefits*.

Therefore, the IPSASB agreed with staff's recommendation to include the net interest approach in the revision of IPSAS 25.

The IPSASB directed staff to include in the Basis for Conclusions the main differences between IPSAS 25 and GFS reporting guidelines.

Discount Rate to Value Post-Employment Benefit Obligations

The IPSASB considered the different requirements for discount rates in IPSAS 25 and IAS 19.

The IPSASB agreed with the staff recommendation to delete paragraph 95 because no public sector specific reason to maintain it was identified.

The IPSASB compared paragraphs 91 and 94 of IPSAS 25 with paragraphs 83 and 86 of IAS 19. The IPSASB agreed that the departure from IAS 19 preceded the development and publication of the Process for Reviewing and Modifying IASB Documents and that this project is a limited scope project to converge with IAS 19 amendments. The IPSASB also agreed that there are public sector reasons that warrant a departure from IAS 19 to apply a more principles-based approach to selection of the discount rate, namely:

(a) It is not appropriate to discount public sector liabilities by using as a first option a discount rate based on corporate bonds;

(b) Given the diversity of public sector pension plans, it is more appropriate to allow the preparer to choose the most appropriate discount rate.

Therefore, the IPSASB agreed to retain the current requirements in paragraphs 91 and 94 of IPSAS 25.

Disclosures

The IPSASB considered the different disclosure requirements in IAS 19 and GFS reporting guidelines.

The IPSASB did not identify additional disclosures to be included in the revised version of IPSAS 25 to align with GFS reporting guidelines requirements.

Therefore, the IPSASB agreed with staff's recommendation to maintain the revised IAS 19 disclosures in the draft ED.

Definitions

The IPSASB agreed with the staff's proposal to categorize defined terms according to the section of IPSAS 25 to which they relate, rather than, as currently, in one section. The IPSASB also directed that all the definitions should be included in the ED for clarity, even if it is not proposed to amend the definition.

Rebuttable Presumptions

The IPSASB agreed to retain the rebuttable presumptions on state plans and long-term disability payments because this is a limited scope project to address only IAS 19 amendments.

Terminology

The IPSASB agreed with staff's recommendation to retain the terms "constructive obligation", "reliable" and "fair value" in IPSAS 25 rather than replacing them with terms "non-legally binding obligation", "faithful representation" and "market value", used in the Conceptual Framework because:

(a) This is a limited scope IFRS convergence project;

(b) There needs to be a more general review of the recognition and measurement requirements in IPSASs in the light of the Conceptual Framework;

(c) The IPSASB has already decided not to change the word "reliable" in the context of recognition and measurement in IPSASs; and

(d) There is an approved project on Measurement that will consider the measurement bases in all IPSASs.

The IPSASB also agreed with the staff's recommendation to retain the terms "revenue" and "controlled/controlling entities" in IPSAS 25, because they are consistent with the Conceptual Framework.

The IPSASB agreed to remove the term "in exchange" from the definition of Termination Benefits to avoid confusion with the usage of the terms "exchange" and "non-exchange" in IPSASB's literature.

IAS 19 uses the term "the end of the annual reporting period". The IPSASB directed to remove the term "annual" should be deleted, because a reporting period can be other than annual.

Other Recommended Changes to IPSAS 25

The IPSASB did not agree with the staff's recommendation to propose inclusion of paragraph AG1A (Examples Illustrating Paragraphs 17 and 18: Accounting for Short-term Paid Absences) in IPSAS 25 because this is a limited scope project to address only IAS 19 amendments.

Page-by-page Review

The IPSASB undertook a page-by-page review of the ED and identified a number of minor amendments to be made to the ED.

Approval of the ED and Exposure Period

The IPSASB approved ED 59. Sixteen members voted in favor, with two absentees. The IPSASB agreed that the comment period would be until April 30, 2016.

6. Cash Basis Review (Agenda Item 6)

The IPSASB considered a draft exposure draft (ED) proposing amendments to the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting* (the Cash Basis IPSAS) directed at:

- Overcoming obstacles to adoption of the IPSAS that arise as a result of the requirements relating to consolidation, external assistance and third party payments;
- Clarifying that the role of the *Cash Basis IPSAS* is as a step in the transition to the accrual basis of financial reporting and adoption of accrual IPSASs, rather than an end in itself; and
- Ensuring that, while perhaps less demanding than the accrual IPSASs, the requirements and encouragements in the *Cash Basis IPSAS* are not contrary to those of the equivalent accrual IPSASs, except where such differences are appropriate to reflect the cash basis of financial reporting.

The IPSASB reviewed the draft ED with a view to its approval at this meeting and identified a number of amendments as noted below.

Introductory material to the revisions proposed in the ED and specific matters for comment (Agenda Paper 6.2 (a))

The IPSASB agreed that the ED would retain the introductory material and specific matters for comment with the following amendments to:

- Page 3, the second sentence of the first paragraph is to acknowledge that the requirements in Part 1 have been relocated to encouragements in Part 2 of the IPSAS; and
- Pages 6 and 7, the Contents pages are to identify the page numbers of the ED which include the detailed revisions.

Part 1 of the Exposure Draft: Requirements (Agenda Paper 6.2 (a))

The IPSASB agreed the text of the introductory paragraphs to *Part 1: Requirements* with the following revisions to:

- Page 9 and following: re standardization of terminology, the term *governments and public sector entities,* rather than *public sector organizations,* is to be used throughout the ED;
- Pages 9 and 10: the explanation of the role of the Cash Basis IPSAS is to include an acknowledgement that: (a) the path adopted to transition to the accrual basis will reflect jurisdiction circumstances and, consequently, may differ from jurisdiction to jurisdiction, and (b) the IPSASB does not specify that a particular transitional path should be adopted; and
- Page 10: the explanation of the role of the encouraged disclosures in Part 2 of the IPSAS should be extended to explain that its role is to support an entity's transition to the accrual basis of financial reporting *and adoption of the accrual IPSASs*. It was agreed that where appropriate, references to the role of the Cash Basis IPSAS in introductory and other sections of the ED and in the basis for conclusions should also refer to transition to the accrual basis of financial reporting *and adoption of the accrual IPSASs*. (Staff comment: this revision to the phrasing of this term will be processed throughout the ED. The specific instances where this occurs are not identified in the remainder of these minutes.)

The IPSASB agreed the text of Sections 1.1 *The Scope of the Requirements* and 1.2 *The Cash Basis* with the following revisions to:

- Page 11 paragraph 1.1.2: this is a black letter authoritative paragraph and therefore is to specify that public sector entities which prepare and present financial statements on a cash basis *shall* (rather than *should*) apply the requirements of Part 1 of the IPSAS;

- Page 12 paragraph 1.1.4,: the first sentence is to reflect that a reporting entity is an individual entity that presents financial statements or, where a controlling entity elects to present group financial statements, a reporting entity may comprise a controlling entity and one or more controlled entities that present financial statements as if they are a single entity;
- Page 12, paragraph 1.1.5: this paragraph is not to refer to a whole-of-government reporting entity but is to reflect the revisions agreed to paragraph 1.1.4 and explain that the Standard applies equally to the general purpose financial statements of an individual entity and the general purpose financial statements of a reporting entity that comprises a controlling entity and one or more controlled entities; and
- Page 13 paragraph 1.2.8: the reference in the third sentence to *line entities* is to be replaced with a reference to *individual departments and other entities*. Consequential amendments are to be made as necessary.

The IPSASB agreed the text of Section 1.3, *Presentation and Disclosure Requirements* without further amendment. The IPSASB also agreed that the heading of the introductory comments which explain the changes proposed to the Cash Basis IPSAS are to include the section number of the Cash Basis IPSAS that is subject to the proposed change. Consequently, the heading to the sections explaining changes proposed to section 3 of the Cash Basis IPSAS are to be revised as noted below:

- Page 16: the heading is to read: *Amendments to: 1.3 Financial Statements*;
- Page 17: the heading is to read: *Amendments to: 1.3 Information to be Presented in the Statement of Cash Receipts and Payments*; and
- Page 18:, the heading is to read: *Amendments to: 1.3 Payments by Third Parties on Behalf of the Entity; and*
- Page 20: the heading is to read: *Amendments to: 1.3 Accounting Policies and Explanatory Notes.*

The IPSASB agreed that a similar style should be adopted throughout the ED for the heading of the introductory comments which explain changes proposed to each section and subsection of the Cash Basis IPSAS. The IPSASB also agreed that the explanation of the proposed changes should be updated to:

- Reflect amendments agreed by the IPSASB at this meeting; and
- Identify the new paragraphs that are proposed to be added to the Cash Basis IPSAS and the existing paragraphs of the Cash Basis IPSAS that are proposed for deletion or revision.

(Staff comment: These amendments will be processed in each section and subsection as relevant, without further reference to the location of those amendments in these minutes.)

The IPSASB agreed the text of the remainder of Part 1 of the ED with the following revisions to:

- Page 22 paragraph 1.4.7(d): the reference should be to *entities* rather than *organizations* and is also to require disclosure of changes in the composition of the reporting entity. Consequential amendments are to be made to commentary paragraphs and the illustrations in Appendix 1 as appropriate;
- Page 33 paragraph 1.9.27: the reference to *consolidated financial statements* in the first sentence is to be replaced with *reporting entity* and the second sentence is to refer to *requirements and encouragements*;

- Page 33 paragraph 1.9.30: the third sentence is to be rephrased to explain that where a national government does not control state or local governments, the consolidated financial statement of the national government will not consolidate the state/provincial or local governments that it does not control; and
- Pages 44 and 45 paragraph BC 5: the reference to the Cash Basis IPSAS being derived from the accrual IPSASs is to be removed and the paragraph is to be restructured to read as follows:

  This ED proposes minor "housekeeping" amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent accrual IPSASs, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSASs have been updated, and in some cases withdrawn and/or replaced. The "housekeeping" amendments proposed reflect, as far as is appropriate, developments in the accrual IPSASs.

The IPSASB noted that in Appendix 1 at pages 62- 68, as a consequence of the proposed amendments to Part 1 of the ED there is little difference in the financial statements of: (a) Government Entity B which controls its own bank account; and (b) Government Department C whose cash receipts and payments are managed through a centralized treasury function. The IPSASB discussed whether Appendix 1 should include an illustration of both entities and agreed that for purposes of the ED the illustration of both entities may be useful to readers and, therefore, should be retained.

The IMF observer noted that the ED provided an opportunity to refine the illustrations of the Statement of Cash Receipts and Payments and comparisons of budget and actual amounts in the Cash Basis IPSAS to better align with the *Classification of the Functions of Government* adopted in government finance statistics by (a) including in the Statement of Cash Receipts and Payments a separate line item for cash inflows and outflows for transactions in financial assets other than cash or, more simply, by replacing the term *capital expenditures* with *capital payments;* and (b) adding in relevant statements of budget comparison and note disclosures of entity programs or activities, line items to acknowledge cash payments classified as *general public services* and *environmental protection*. The IPSASB agreed that some refinements along these lines could be made to the illustrations.

Part 2 of the Exposure Draft: Encouraged Additional Disclosures (Agenda Paper 6.2 (b))

The IPSASB agreed the text of Part 2 of the ED with the following revisions to:

- Page 10 Introduction: in addition to any updates as a consequence of decisions of the IPSASB at this meeting, the introduction which summarizes proposed changes to the section of Part 2 of the IPSAS headed *Consolidated Financial Statements* should acknowledge that there are also changes to paragraphs 2.1.44 to 2.1.48 of that section;
- Page 11 paragraph 2.1.45(b): the encouragement that, when financial statements used in a consolidation are drawn up to different reporting dates, the difference between the reporting dates should be no more than three months is to be revised to reflect the requirement in IPSAS 35, *Consolidated Financial Statements*. (Staff comment: IPSAS 35 does not specify a time limit on the difference between the reporting dates, consequently the three month limit will be removed from the ED);
- Page 11 paragraph 2.1.47: the phrase "*is encouraged to*:" is to be removed from the first line of paragraph 2.1.47 and replaced by neutral but stronger phrasing. Consequently, paragraph 2.1.47 will reflect that an economic entity uses the term *consolidated financial statements* to describe financial statements which comprises the controlling entity and its controlled entities as identified

in Part 2 of the IPSAS. In other cases, the economic entity will use a term that clearly describes the classes or (characteristics) of entities that make up the economic entity. Consequential amendments will be made to paragraph 2.1.56 as noted below;

- Page 12 paragraph 2.1.48: "all" is to be added to the second line so it reads *…for a controlling that meets all the following conditions ...;*
- Page 12 paragraph 2.1.48(d): the subparagraph is to be simplified by referring broadly to circumstances in which a controlling entity's: …*ultimate or any intermediate controlling entity produces and makes available for public use consolidated financial statements in which controlled entities are consolidated and comply with the Cash Basis IPSAS or with the accrual IPSASs.* Consequential amendments are to be made to commentary paragraphs as appropriate and are to include an acknowledgement that an ultimate or intermediate controlling entity intending to prepare consolidated financial statements on an accrual basis is likely to face significant practical issues in compiling, in respect of controlled entities that adopt the cash basis, the data necessary to comply with the accrual IPSASs;
- Page 13 paragraph 2.1.56: the explanation in the first sentence that paragraph 2.1.47 encourages entities to only use the term consolidated financial statements in specified circumstances is to be replaced by phrasing that reflects the amendments agreed to paragraph 2.1.47. That is, that the term *consolidated financial statements* is used to describe financial statements that present a *full consolidation of all controlled entities as* identified in the Standard;
- Pages 19 and 20 paragraphs 2.1.79 and following: rather than redefining external assistance more broadly to encompass official resources and unofficial resources, the approach outlined on slide 33 of the staff presentation is to be adopted—that is:
  - The definition of *external assistance* and *official resources* as currently included in the Cash Basis IPSAS is to be included in Part 2 without change;
  - Part 2 is also to include the definitions of:

    Assistance, which is to be defined to include external assistance and other assistance;

    Other assistance, which is to be defined to included resources provided by non-governmental organizations (NGOs) and gifts and donations or other forms of assistance voluntarily provided by individuals and private sector organizations which the recipient can use or otherwise benefit from in pursuit of its objectives. The definition and supporting explanation would note that other assistance does not include official resources, taxes, fines and fees, resources provided in an exchange transaction or resources provided by the government or agencies of a government of the same nation as the recipient;
  - The ED is to propose that Part 2 of the IPSAS encourage disclosure of certain information about external assistance and where practicable, other assistance, received in cash during the reporting period, and the amount of any undrawn assistance that is available to the entity at reporting date; and
  - As necessary, consequential amendments are to be made to the text of Part 2 of the IPSAS, the basis for conclusions and the illustrations in Appendix 3;
- Page 26 paragraph 2.1.94: rather than encourage the disclosure of the value of all goods and services received during the period, the paragraph is to be revised to encourage the disclosure of

the value of external assistance and other assistance received in the form of goods and services. Consequential amendments are to be made to commentary paragraphs;

- Page 33: the additional proposed paragraph BC 12 is to be added to the BC. Consequently, paragraph 2.1.3 is to be deleted from Part 2 of the ED;
- Pages 71 to 75 of Appendix 5: text added to the September draft ED is to be removed rather than struck through; and
- Pages 84 and 85: Appendix 6 is to be removed rather than struck through because it reflects text added to the September draft ED.

The IPSASB approved issue of the ED for a six month exposure period by 16 votes to 0 with one Member absent, subject to updating paragraph numbers and processing the amendments identified above. The IPSASB agreed with the proposed communication strategy.

The IPSASB confirmed that consistent with the usual format of EDs proposing amendments to IPSASs, only those paragraphs or sections of the Cash Basis IPSAS that are proposed for amendment should be exposed for comment in the ED. The IPSASB also agreed that a copy of the full Cash Basis IPSAS, "marked-up" to identify sections proposed for amendment, should be included on the IPSASB website as a resource for constituents wishing to place the proposed amendments in the context of the full IPSAS.

7. Public Sector Standard Setters Forum (Agenda Item 7)

IPSASB member Ian Carruthers (incoming IPSASB Chair) gave a brief update on progress on the Public Sector Standard Setters Forum, scheduled for March 2016 in Norwalk Connecticut and hosted by the Governmental Accounting Standards Board (GASB). Following the September meeting Ian had liaised with the International Accounting Standards Board, which had circulated details of the Forum to those on the correspondence list for the annual World Standard Setters Meeting. Ian had also circulated details via Eurostat to potential attendees from the member countries of the European Union. Forty-five delegates representing 23 bodies had indicated that they wished to attend the Forum. Respondents include those with whom the IPSASB had had previous engagement, but also those who had not had previous associations with the IPSASB. A review of the list of attendees will be carried out to identify important standard setters who have not responded with a view to contacting them and asking them to attend.

The working group comprising the GASB Chair, IPSASB members, GASB staff and IPSASB staff were to meet off-line during the meeting and discuss a draft agenda, the format of the Forum and logistical arrangements. The agenda will be finalized in early 2016. The IPSASB will discuss the agenda, objectives and optimal outcomes from the Forum at the March 2016 meeting.

8. Revenue/Non-Exchange Expenses (Agenda Item 8)

The Chair welcomed David Bean, Director of Research and Technical Activities of the Governmental Accounting Standards Board (GASB), Todd Beardsworth, Director of Accounting Standards of the New Zealand External Reporting Board (NZXRB), and Amy Shreck, Practice Fellow of the GASB. Todd was supported by Aimy Luu Huynh, staff of the NZXRB, who attended the meeting.

Session Overview

Project staff noted that the teams had been working together closely since the September meeting and had developed the materials for joint agenda item to address both revenues and expenses. Project staff described the overall objective of the session, which was to determine whether or not to develop consultation papers for each project. The teams also wished to obtain direction regarding the structure and content of the consultation papers. It also was noted that this was a key point for the projects and that the intention was to identify approaches for consideration for inclusion in a consultation paper.

The Board considered an overview of possible approaches. The first is the exchange/non-exchange classification approach. For exchange revenues, an IFRS 15, *Revenue from Contracts with Customers*, type approach would be used, while a modified IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* would address non-exchange revenue. Non-exchange expenses could continue to be addressed in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, or guidance could be developed, similar to how IPSAS 23, The project staff noted that an IFRS 15-based approach could work for exchange transactions in the public sector.

The second possible approach is based on performance obligations. Revenue transactions that have performance obligations would use the performance obligation model, while an enhanced IPSAS 23 model would apply to other transactions. The project staff noted this approach could create issues for non-exchange expenses. Non-exchange transactions can may, or may not include performance obligations. It also was noted that use of the performance obligation approach removes the question of whether or not revenue transactions are exchange or non-exchange; however, the Non-Exchange Expenses project still carries the requirement to establish the exchange or non-exchange nature of the transaction.

The project staff introduced the potential of exploring an approach that would expand the scope of the Non-Exchange Expenses project. The Chair asked for initial comments from Board members. A member who works on the task-based group for both projects noted that one of the major challenges in these projects is scope and organization, and that Board consideration of the scope and organization was appropriate. The member also indicated that this has been a contentious issue in the member's jurisdiction, as the movement of funds between levels of governments, especially those with balanced budget restrictions, is very important. The member encouraged the board to consider the public interest and the relationship with fiscal management agencies.

Another member described the use of the exchange/non-exchange classification as a label to distinguish transactions in the public sector that are different from transactions typical to the private sector, but that the labels are not particularly useful in determining the accounting. The member suggested that the exchange/non-exchange classification could be defined in the standards, but not used to determine the accounting treatment or approach.

Another member echoed the comments made previously and stated that these projects are fundamental projects. The member indicated support for the approach to continue exploring the options and presenting constituents with options for further consideration.

The Chair described the emergence of the non-exchange/exchange bifurcation as a way to distinguish the economic substance of the types of transactions. The bifurcation was needed to demonstrate the difference between paying for taxes and paying for a good. The debate is no longer as relevant and may be considered as an explanation, but not a way to determine accounting treatments.

The Chair also indicated that the idea of the Non-Exchange Expenses project was to fill a gap in the literature, not necessarily to limit the project to potential guidance on only non-exchange expenses. There are gaps in guidance for exchange transactions as well, which is an issue in some jurisdictions. The Chair would welcome addressing the expenses that are not already addressed by other standards.

Another member also supported the view that the exchange/non-exchange labels should not be lost, but should not dictate the accounting. The member also described a continuum that has social benefits on one end and private, exchange transactions on the other. The transactions in the middle have been labelled non-exchange. The member suggested that the continuum be explored, including the differences between the non-exchange transactions and either social benefits or exchange transactions.

Project staff noted that the continuum from social benefits to exchange transactions had been described in past meetings. Another member supported the general approach and echoed comments in support of exploring the continuum.

Preparer Interviews

Project staff then presented an Issues Paper (Agenda Item 8.1) describing the results of the preparer interviews conducted by the Revenue and Non-Exchange Expenses project teams. The interview process and types of interview participants, as well as the limitations of the results, were presented. Due to the small sample size and lack of random selection of participants, the results should not be generalized. However, the results can provide valuable feedback from preparers.

The project staff summarized the types of non-exchange transactions, both revenue and expenses, described by the interview participants. The issues in accounting and reporting for these transactions described by the interview participants were also summarized. For revenue, the preparers interviewed indicated issues with the distinction between restrictions and conditions, the treatment of advance receipts, and the differentiation of exchange and non-exchange transactions from an operational standpoint. For expenses, interview participants often reported no issues; however, some issues reported by interview participants included the treatment of multi-year expenses, application of the "more likely than not" recognition threshold, and the treatment of concessionary, forbearance, and conditional loans.

Interview participants also were asked if they felt there was sufficient guidance on the distinction between exchange and non-exchange transactions. Although some interviewees indicated this was a challenge, interview participants reported mixed answers to the specific question. Some felt there was sufficient guidance, while others felt the current guidance was insufficient. Project staff also described the interview participants' responses regarding the current treatment of accruals for non-exchange expenses transactions and the guidance consulted regarding non-exchange expenses. Participants reported a variety of answers to both questions.

Matter for Consideration – Additional interviews of preparers

The IPSASB was asked if additional interviews of preparers should be conducted and, if so, to provide suggestions for additional participants.

A member noted that while obtaining views from preparers was useful, views from fiscal managers may be more important. The member felt enough interviews had been conducted with preparers, but that interviews of users should be considered.

Another member who had participated in the interview noted that while the suggestion to contact users was a good idea, a challenge was that the interview would need to be different as the user participating in the interview would need a lot of knowledge on the subject. The approach would have to be adjusted to obtain useful information from the users.

The Chair suggested that there might be difficulty in obtaining relevant feedback from fiscal managers in jurisdictions where budgeting is a on a cash basis, because accrual accounting is not relevant for them.

Another member noted that additional interviews of preparers were unlikely to result in any new information. The member noted that a sufficient volume of information had been obtained and that the information confirmed what had been expected. The member also supported talking to users, but shared concerns over the approach. The member noted difficulty in the member's jurisdiction in their own post-implementation review.

Another member suggested that the responses obtained to date likely provided the majority of relevant information expected from the interviews. The member also expressed concern that contacting some users may result in a discussion of flows that would not be useful as feedback. The member suggested that engagement with users may be considered in the consultation paper phase.

The project staff clarified that the question presented in the paper was geared toward the preparer side only because the project teams had only been able to interview one user at this time. It was noted that each preparer interviewed was asked to identify a contact in the user community, but that only one interview had been arranged. The preparer information was presented to ensure that enough work had been completed related to interviews of preparers. The project staff asked the members to continue to identify users and provide contact information to the staff for interview scheduling.

A member also suggested that answers may be different from countries that are moving to implement accrual accounting.

The Chair summarized that the Board is interested in a limited number of interviews to consider additional viewpoints, including those of fiscal managers, countries implementing accrual accounting, and other users who may reveal some interesting points.

Landscape Review - Expenses

Project staff then presented another Issues Paper (Agenda Item 8.2) that provided an overview of the current IPSASB guidance on expense transactions. The paper was intended to serve as an overview and future reference point as the Non-Exchange Expense project continued. The paper described certain IPSASs that could potentially be affected by the project, as well as standards that were not likely to be affected.

Matter for Consideration – Initial conclusions

The IPSASB was asked if it agreed with the initial conclusions in the paper. Members agreed with the initial conclusions and felt the information would be useful going forward. The Chair noted that IPSAS 4, *The Effects of Changes in Foreign Exchange Rates,* may also be affected.

Exchange/Non-Exchange Classification Approach

Project staff then presented an Issues Paper (Agenda Item 8.3) that described the exchange/non-exchange classification approach. The presentation began with a description of the advantages and disadvantages of the exchange/non-exchange classification approach. The advantages included that preparers are familiar with the approach. The approach is also well-tested in the public sector and foundational to the public sector, as it is referenced in many IPSASs, as well as the Conceptual Framework. It also noted that using the exchange/non-exchange classification approach does not require a change in scope for the non-exchange expenses project, which may not be the case if the performance obligation approach is used.

Disadvantages presented included the difficulty in the conceptual difference in the nature of a public sector entity's transactions as either all exchange or all non-exchange. Another disadvantage of the exchange/non-exchange classification approach is the difficulty in practice of differentiating between exchange and non-exchange transactions described by preparers in the outreach interviews. Finally, while some financial statements elements are presented or disclosed differently for exchange and non-exchange transactions, the distinction is not meaningful in the presentation of the financial statements.

Matters for Consideration – Advantages and disadvantages of the exchange/non-exchange classification approach

The IPSASB was asked if it agreed with the advantages and disadvantages described and if there were any additional advantages or disadvantages that should be considered.

A member asked about the presentation issue described as a disadvantage. Project staff responded that one item of consideration to be raised later is whether or not the consultation paper should include the presentation issue. Another member indicated that presentation is an important consideration.

An observer noted that while the distinction between exchange and non-exchange transactions may not be presented in the financial statements, the classification is used to determine how transactions are presented. That consideration should not be overlooked.

A member noted that an important part of the consultation paper is to articulate what we are trying to achieve with the projects.

Another member noted that conditions, restrictions, stipulation, are significant and an important consideration and should be addressed. The Chair noted that the guidance may not be clear or that the guidance may be clear but people may not like the answer. This could be a disadvantage of the IPSAS 19 or IPSAS 23 approach, as the guidance is fairly clear for recipient when recognizing revenues, but not as clear for providers.

Project staff then described some potential modifications that could be made to IPSAS 23 to address some of the challenges of the exchange/non-exchange classification approach. It was noted that the core definition of non-exchange could be retained, while providing additional clarification and implementation guidance. The standards may also consider modifying the presentation of transactions on an exchange or non-exchange basis. This discussion also impacts the use of a performance obligation approach for the transactions that do not have performance obligations.

Matter for Consideration – Potential modifications

The IPSASB was asked to identify any additional potential modifications to the IPSAS 23 approach that should be further explored at the next meeting.

The Chair expressed some concern regarding the operationalization of the definition of non-exchange, as well as whether such operationalization was necessary. It was clarified that the intent would be to present two approaches, the performance obligation approach and the exchange/non-exchange approach. To present the exchange/non-exchange approach without any modifications is one option of those approaches.

A member asked what kind of clarification or operationalization would be envisaged and whether some transactions that are now in the scope of IPSAS 23 might be outside the scope following revisions to IPSAS 23. Project staff clarified that it is not intended to modify the scope. It was indicated that because of stipulations or other factors present in non-exchange transactions, the accounting for those transactions may be very similar to exchange transactions. The member also asked what type of guidance might be issued to help with the consideration of certain transactions, specifically license fees. Project staff indicated that there would not necessarily be a bright-line answer, but that there should be guidance considered related to bifurcation. The details still needed to be considered and judgement would always be involved.

Members discussed compulsory and non-compulsory transactions. The Chair also noted that fines should be considered.

Another member described the difficulty their jurisdiction had in implementing IPSAS 23. The member noted that the guidance in IPSAS 23 did not allow for flexibility to reflect the transaction in a way that was helpful to users in certain cases.

Another member suggested that restrictions and conditions should be discussed further and, in particular, whether or not the accounting treatment of restrictions and conditions should be different. It was noted that the distinction was intended to address the differences in control of the resources. However, that member also noted that the treatment of time requirements as restrictions does not per se give rise to liabilities of recipients and the requirement that in order for there to be a liability of the recipient there had to be both a performance obligation and a return obligation on a recipient should be reconsidered.

Members also discussed the potential tension between a conceptually-pure approach and one that provides the most important information to users.

Project staff then continued by describing one approach that could be used for guidance on non-exchange expenses using the exchange/non-exchange classification approach.

Matters for Consideration – Advantages and disadvantages of IPSAS 19 and IPSAS 23 approaches

Staff suggested that guidance for non-exchange expenses could continue to be provided by IPSAS 19. Project staff described some advantages and disadvantages of continuing to use IPSAS 19. Advantages included the flexibility to address jurisdictional differences and the use of professional judgement by preparers. Disadvantages include a lack of specificity and lack of specific consideration of non-exchange transactions.

Project staff then described the advantages and disadvantages of the option of using the IPSAS 23 model of the exchange/non-exchange classification. One advantage of the IPSAS 23 model is that IPSAS 23 is familiar to preparers, which may result in fewer implementation difficulties. The guidance in IPSAS 23 also covers stipulations, which are common features of the provision of resources in non-exchange transactions IPSAS 23 also provides guidance for addressing transactions that have both an exchange and a non-exchange component.

It was noted that the IPSAS 23 approach does have certain disadvantages. Project staff described some of these disadvantages, noting that the guidance for stipulations may be insufficient. It also was noted that the application of the IPSAS 23 approach may result in accelerated expense recognition for some public sector entities. Jurisdictional differences may cause difficulties in determining the appropriate accounting treatment.

The IPSASB was asked if it agreed with the advantages and disadvantages of the IPSAS 23 approach and to identify any additional advantages or disadvantages.

One member questioned whether the issues were with the accounting guidance or in the arrangements used in practice. The guidance may not be problematic, instead the agreements used in practice may be causing the difficulty.

Project staff concluded by indicating the exchange/non-exchange approach will continue to be developed and noted that an upcoming question will be whether or not the Board wants to present a preliminary view on the approaches in the consultation paper. That decision cannot be made today, but should be considered in the upcoming meetings.

Performance Obligation Approach

Project staff then presented the Issue Paper on the performance obligation approach.

The IPSASB noted that under a strict application of the performance obligation approach in IFRS 15, *Revenue from Contracts with Customers,* only some revenue and expense transactions with performance obligations would be within the scope. The IPSASB agreed that it would like to develop a performance obligation approach that could be applied to a much broader range of revenue and expense transactions with performance obligations. This included transactions that would broadly meet the criteria set out in IFRS 15 (category A transactions in the Issues Paper) and transactions that would not meet the criteria set out in IFRS 15 but that include performance obligations (category B transactions in the Issues Paper). A subset of category B transactions where there is no transfer of control of the resources are to be explored further.

The IPSASB agreed that a performance obligation approach could not be applied to transactions that do not include performance obligations (category C transactions in the Issues Paper), and that an IFRS 15-related approach cannot be applied to these transactions.

The IPSASB agreed that the performance obligation approach needs to take a broad view of binding arrangements and their enforceability in the public sector, noting that specific legislative requirements can give rise to performance obligations and that enforceability is not just through legal means.

Number of Consultation Papers

Project staff also presented the Issues Paper (agenda item 8.5) seeking a decision about whether or not to develop consultation papers (or a consultation paper) for the revenue and non-exchange expenses projects. The IPSASB agreed that a consultation paper phase is necessary.

The IPSASB agreed to develop one consultation paper for both revenue and non-exchange expenses that would set out the two alternative approaches it has been considering – that is, an exchange/non-exchange classification approach and a performance obligation/no performance obligation approach. The IPSASB noted that the manner in which the consultation paper is packaged may need to be reconsidered as the shape and size of the paper became evident.

The IPSASB justified the need for a consultation paper on the basis it was considering an approach to revenue and expenses that did not distinguish between exchange and non-exchange transactions. This would be a major change to the IPSASB's literature.

The IPSASB agreed that the strategy for engaging with its constituents on the consultation paper is very important. The consultation paper will introduce some new thinking on accounting for public sector revenues and expenses, giving rise to significant practical issues that governments and other public sector entities need to consider.

9. Emissions Trading Schemes (Agenda Item 9)

The IPSASB considered issues for development of the Emissions Trading Schemes (ETSs) consultation paper (CP) and provided direction to staff.

Staff introduced the three papers presented—an issues paper, a draft background paper on governments' policy objectives for ETSs, and a draft description of four options to account for ETS involvement. There have been concerns about when the International Accounting Standards Board (IASB) accounting options will be available for IPSASB consideration and integration into the IPSASB CP. IPSASB staff are working collaboratively with IASB staff responsible for the IASB's "Pollutant Pricing Mechanisms" (PPM) project, which aims to address accounting by ETS participants for their ETS involvement.

Coordination with IASB's Pollutant Pricing Mechanisms Project

The IPSASB considered the staff update on IASB PPM project developments, where competing IASB agenda priorities appear to have impacted on progress. There are indications that the PPM project will be a higher priority for the IASB in 2016. The IPSASB considered three options for development of the ETS project, including deferral of the next IPSASB level discussion until the June or September 2016 meeting. *The IPSASB directed staff to work with IASB staff on further development of the background paper (discussed further below).*

A proposal that staff from both boards work together on further development of the background paper (discussed further below) was supported. The aim of the background paper and joint approach is to support both boards' consideration of ETS issues with a shared description of the economic impacts of alternative government interventions and different types of ETSs and shared glossary of ETS related terms. The background paper should be concise and focus on those differences—between interventions and types of ETSs—that could have implications for financial reporting. It will not discuss accounting options for ETS involvement.

The IPSASB's discussion identified several guiding principles for next steps. First, the policy intentions of a government when establishing an ETS are important for development of a principles–based accounting standard for ETS involvement. The economic substance and mechanics of ETSs as a group, and of particular types of ETS, including baseline–and–credit ETSs, need to be understood. A narrow focus on cap–and–trade schemes that transfer emission allowances (EAs) for free is insufficient for development of a robust, principles–based accounting approach that will comprehensively address accounting for ETS involvement now and in the future. Second, clarity over the boundary between ETSs and other types of interventions to reduce emissions is needed. Some of the interventions described as ETSs (for example, the present Australian approach to reduce emissions) are not actually ETSs. What are the critical factors that establish an intervention as an ETS? Third, working jointly with the IASB is important. The two boards should be confident that ETS related terms are understood in the same way and there should be a common, shared understanding of the economic substance of ETSs. Joint development of the background paper will support that objective. The background paper should initially be developed as a staff paper. Subsequently it could be considered for publication.

Background Paper on Government Policy Objectives and Interventions

The IPSASB then considered the re–focused background paper (agenda item 9.2) and confirmed its overall approach while noting the significant progress made since September. As indicated in the earlier discussion the IPSASB confirmed that the paper should not discuss accounting options, but focus instead on describing policy objectives, the different types of intervention available, the mechanics of ETSs, their economic substance and impact for participants and administrators. Staff should avoid discussions of intervention effectiveness (e.g. impact on environment, suitability for different country contexts, etc.) and focus on ETSs' economic impact on entities that are likely to have implications for entities' financial reporting. Development of a shared terminology and the importance of developing a concise, impactful summary were re-emphasized. IPSASB staff were directed to work with IASB staff to agree the process and timing for the background paper's development going forward.

Accounting Options and Economic Impacts

The IPSASB then reviewed draft descriptions (agenda item 9.3) of four options for accounting for ETS involvement:

Approach 1, *Emission Notes (Financial Liability)*;

Approach 2, *Emission Licenses (Intangible Asset)*;

Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*; and

Approach 4, *Emission Limits (Taxes and Contingencies,* formerly *Approach 3, Revenue)*.

Staff introduced the options, explaining that these four options were discussed by the IPSASB in September and their descriptions reflected the IPSASB's directions from that meeting. A fifth option (Approach 5, *Emission Contracts*) from that meeting has been excluded, because it had received little support from members in September. There is scope to reconsider that option if subsequent considerations of the economic impact of an ETS re-opens the possibility of taking an executory contract approach. As noted in September, there are likely to be one or more additional options arising from IASB considerations. Those options will be presented for IPSASB discussion once they have been discussed by the IASB and more information is available on whether they are likely to be in the IASB discussion paper. Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*, was developed by applying symmetry to the recognition pattern in two accounting options discussed at the IASB's June 2015 meeting. Staff sought IPSASB views on the accounting options, their descriptions and whether any option either has more support or should be excluded. Staff also asked for input on summary tables for the "economic impact" of different government interventions, particularly whether the approach taken with respect to economic impact was acceptable.

Economic Impacts for Different Government Interventions

The IPSASB described the economic impact summary tables as useful and identified revisions. A column on "other features" should be included, which could cover features such as whether trading takes place on a secondary market. Secondary markets exist for both EAs and tax losses. The column with comparisons of economic impact was less useful. Cash flow should not be categorized as, for example, "tax revenue" but instead described either as inwards or outwards cash flows. Both the carbon tax and ETS costs could, arguably, be characterized as taxes.

Further comments on economic impact were provided to staff. If the governments' approach is to force companies to internalize externalities, so that the cost of emissions is costly to companies, then both carbon taxes and an ETS achieve this aim. The question of who bears the cost of externalities should be considered. The mechanism should be linked to the cost of externalities and discussed as part of the evaluation of economic substance, for example, whether society as a whole incurs the cost or is compensated so that the overall impact is zero, and whether certain companies (e.g. those that cannot reduce their level of emissions) bear more of the cost.

Staff were directed to consider, with respect to the economic impact on the government (administrator), whether there is a revenue component for each mechanism, whether the overall economic impact is positive, negative or neutral, and whether receipt of revenue is central to the mechanism or viewed as a by–product of changing people's behavior. The Swiss ETS case study illustrates a situation where any revenue received from the ETS must be returned to the community with the result that the overall economic impact for the government should be zero.

Descriptions of Accounting Options

The IPSASB directed staff on further development of the accounting options descriptions.

With respect to Approach 1, *Emission Notes (Financial Liability)*, the IPSASB directed staff to provide a more detailed, complete set of accounting entries, particularly the necessary credit/debit entry to move from currency as inventory to a liability on the government's statement of financial position. The conceptual argument for this analogy between EAs and currency needs to be stated. Presently it is not clear how a government can reclassify internally developed intangible rights, which are assets, as something similar to a financial liability. The idea that there is a day 1 gain also requires explanation. This approach is used by the New Zealand government which views EAs as similar to legal tender, because the government accepts both NZ units and Kyoto units as payment for obligations arising from emissions. The detailed accounting treatment is the same as that for currency, already documented for the IPSASB's public sector financial instruments project. The economic substance underlying each separate step for an accounting option should be described, so that the basis for saying that, for example, there is revenue or an expense at a particular step in the process is clear.

Members commented that an EA is issued to get entities to behave in a particular way. Then the journal entries should cover what happens when there is performance and when there is non–performance. The descriptions for all options should cover situations where EAs are transferred for free and where they must be purchased or there is a payment to receive them.

With respect to Approach 2, *Emission Licenses (Intangible Asset)*, the IPSASB directed staff to discuss how this option compares with other licenses, for example fishing licenses, in terms of both accounting treatment and economic substance. There should be consideration of whether EAs could be viewed as a way to avoid a tax, i.e. a tax expenditure. A government could choose to apply a carbon tax but decides instead to provide participants with EAs that allow them to avoid the carbon tax.

With respect to Approach 3, *Pollutant Pricing Mechanisms—Rights and Obligations*, the IPSASB directed staff to describe the consequences of different actions on the part of the participant and describe the overall economic impact, at the end of the period, for either over–performing or under–performing. This option has the effect of avoiding a day 1 gain for participants when EAs are granted to them by the government. The question of whether participants do gain economically from their receipt of EAs should be considered. They appear to gain initially, but at the end of the compliance period they will be obliged to return the EAs without recompense, and the quantity of EAs received is similar to the amount that they could be obliged to return. The discussion of options should be considered within the context of governments' available set of interventions which are to tax, to subsidize or to regulate.

Next Steps

The IPSASB directed staff to further develop the accounting options. The under–performance and over–performance scenarios should be illustrated for each option and a complete set of accounting entries provided. Staff will work jointly with IASB staff on the background paper, including more case studies and a glossary of key terms. A representation of the project's task based group asked other IPSASB members to support IPSASB staff's work on brief case studies in the background paper. One aim is to develop a case study from each IPSASB member's national jurisdiction.

10. Governance (Agenda Item 10)

The Acting Technical Director introduced the session, noting that the purpose was to obtain the IPSASB's approval of Due Process and Working Procedures, so that these documents could be brought to the next PIC meeting in March 2016. He acknowledged the effective support provided by IPSASB Senior Technical

Manager, Ross Smith, in developing the materials and in other areas of the governance process. IPSASB staff explained that the Due Process and Working Procedures were principally a codification of existing practices, rather than introducing extensive new requirements on the IPSASB. The text and format of the document was based on those of the other Public Interest Activity Committees' (PIACs') Due Process and Working Procedures document, which has been in place for over a decade and has been effective in supporting the production of high-quality international standards which enjoy a high degree of global application and acceptance. The Public Interest Committee (PIC) had seen an earlier draft of the IPSASB Due Process and Working Procedures and was satisfied with them. The Technical Director therefore suggested that changes should be limited to fatal flaws only. IPSASB staff acknowledged that aspects of the PIC's approach were still under development. However the Due Process and Working Procedures address the processes that are under the control of the IPSASB.

IPSASB staff then took the IPSASB through the Due Process and Working Procedures on a section-by-section basis. Members raised the following points:

- It was noted that the IPSASB currently had a high threshold for re-exposure of draft pronouncements. The PIC supported this high threshold. It was questioned whether more detail should be included on the considerations for re-exposure. The IPSASB concluded that this might be appropriate for a lower level document, but decided not to modify the Due Process and Working Procedures;
- It was clarified that dissenting or alternative views would be permitted in draft pronouncements, but not in final pronouncements. Members voting against, or abstaining on final pronouncements, have the right to explain their reasons in the minutes of meetings;
- The Due Process stated that all responses to draft pronouncements would be on the public record. On occasions in the past respondents have requested anonymity and it was suggested that this should be reflected in the Due Process document. The Managing Director, Professional Standards, cautioned against any suggestion of a lack of transparency in IPSASB deliberations and it was decided not to change the proposed wording;
- A member asked whether the IPSASB should develop a definition of the public interest. It was noted that IFAC had carried out significant thinking on the public interest and had developed detailed considerations. The Managing Director, Professional Standards expressed a view that it is not appropriate for IPSASB to develop its own definition in isolation. It was noted that in Canada the oversight committee for the auditing and financial reporting standard-setting boards had established a sub-committee to consider the issue and had then worked with the standard-setting boards. It was agreed that this would be discussed with the PIC; and.
- Whether there should be a reference to the Consultative Advisory Group (CAG) earlier in the Due Process. It was decided not to change the proposed structure.

The incoming IPSASB Chair noted that the development of the governance process was a learning process and commented positively on the progress.

The IPSASB agreed the Due Process and Working Procedures. Sixteen members voted in favor with one member absent.

The Managing Director, Professional Standards updated the IPSASB on developments related to the CAG. Thomas Müller-Marqués Berger had been announced as the CAG's inaugural Chair for a limited period until the CAG selects a Chair from its own membership. A Call for Nominations for the CAG had been issued on December 3, 2015.

11. Heritage Assets (Agenda Item 11)

The IPSASB discussed three issues at this meeting and provided direction to staff for development of the Consultation Paper (CP) and a third issues paper for the March 2016 IPSASB meeting.

Issue 1—, Heritage Related Activities and Information Reported

First the IPSASB discussed public sector entities' involvement with heritage, including different responsibilities for heritage preservation, activities undertaken, and implications for reporting information on heritage. The IPSASB began by considering a draft description of public sector entities' heritage related activities. Activities described included those undertaken by entities that hold heritage items (e.g. museums) and those with wider responsibilities for heritage preservation (policy–makers, legislators, enforcement agencies, etc.). Wider responsibilities are likely to cover heritage items in both public and private ownership. Governments' heritage legislation may restrict what can be done with privately owned heritage items.

The IPSASB generally supported the draft description of heritage related activities as useful background for reporting on heritage. One comment was that the extent of activities could be wider than preservation and include "conservation" activities, which also include restoration, reconstruction, rehabilitation and adaptation in addition to preservation. Malaysia's heritage related legislation, for example, focuses on conservation. Staff suggested that the description of activities should include conservation, while the working description of "heritage items" remain focused on "preservation". The description of a heritage items would then remain inclusive and still capture items for which only preservation applies. The IPSASB agreed with that suggestion.

The IPSASB then considered what information public sector entities should report on heritage, given the different types of involvement they could have with heritage and heritage items. Three types of report were identified by staff for consideration: a "status report" that would provide information on all heritage items within the jurisdiction, regardless of whether they were held publicly or privately; a service performance report on heritage preservation activities; and information reported in an entity's financial statements, which would focus on heritage items directly held or controlled by a public sector entity.

The IPSASB directed that the CP should focus on general purpose financial reports (GPFRs) with reference to the Conceptual Framework's description of such reports. Users' needs should be discussed. The first type of report (a status report on heritage items) does not appear to fit the Conceptual Framework's description of a GPFR. GPFRs complement or supplement the financial statements. Heritage status reports would involve expertise outside of the IPSASB's usual remit and are not within this project's scope, which does not include integrated reporting. Status reports would only be prepared by a small set of entities. This last point also applies to service performance reporting. Although many entities contribute in some form to heritage preservation, only some specific entities are likely to have service performance objectives focused on heritage preservation.

The IPSASB further indicated that CP's focus should be on reporting information about heritage items that are controlled and have the potential to be assets, i.e. information on heritage items held by public sector entities. The "entity" is an economic entity rather than a jurisdiction. Recognition and disclosure will also need to be discussed in this context. The set of heritage items included in a national register is not likely to encompass all heritage items held by individual public sector entities. Many jurisdictions have national registers that focus exclusively on tangible heritage (rather than intangible items). The national registers may focus on heritage buildings and not register smaller, moveable items such as paintings. When discussing individual entity's reporting on the heritage items that they hold the issue of reporting on an item that is one component of an asset, such as an older part of a building, should be considered.

Issue 2, Heritage Activities and Public Sector Obligations

The IPSASB then discussed the different types of obligation or commitments that could arise for public sector entities when either holding a heritage item or carrying out responsibilities with respect to heritage preservation. A staff proposal—that heritage related obligations could be divided into "normal" obligations (for example, an obligation to pay for cleaning or repair of a heritage item held by an entity) and "general obligations" or commitments to preserve heritage items—was considered. The general obligation could relate to heritage items in both public and private sector ownership. Staff proposed that the general obligation could be seen as analogous to a social benefit obligation, with RPG 1, *Reporting on the Long–Term Sustainability of an Entity's Finances*, applied to report on future cash flows.

The IPSASB directed staff to: link the discussion of obligations more closely to the Conceptual Framework; discuss whether different responsibilities and situations result in a present obligation for an entity; and consider whether there is a liability or just a generic, undefined commitment to preserve heritage in different situations. Avoid introducing new terminology (e.g. normal/general obligation) and focus on the special nature of heritage items, rather than drawing an analogy between heritage and either social benefits or other types of public sector assets. Consider whether there is any substantive difference between obligations related to heritage items (e.g. maintenance of such items) and similar obligations related to non–heritage items. Does the special nature of a heritage item may be special necessarily result in obligations of a special nature?

Issue 3, Application of Asset Definition to Heritage Item Examples

The IPSASB then considered staff evaluations of whether examples of heritage items met the Conceptual Framework's definition of an asset, focused on existence of a resource and control over the resource. The examples were grouped into four UNESCO–defined categories; cultural property, underwater heritage, intangible heritage, and natural heritage. Staff also provided examples to illustrate that the perceived "value" of heritage items is sometimes aligned with market value and other times not. In the public sector context, the resource aspect to such items is more likely to be service potential than future cash flows. The IPSASB's discussion highlighted both category–specific and general issues as it progressed, while also raising issues with respect to identification of heritage items.

The IPSASB was supportive of the approach taken. Use of the UNESCO categories was supported, although an UNESCO heritage identification does not necessarily indicate that an item is an asset for financial reporting purposes, as is evident in examples such as heritage languages. Comments included that there may be different critical factors to consider for each category. For example, decisions on whether control exist could be different for natural heritage versus cultural heritage. Where items are assets the next consideration will be recognition, particularly measurement issues. Market values may depend on how a particular jurisdiction approaches different categories of heritage. Service potential should be considered in more detail. For example, the meaning (or identification) of service potential for a rare animal or a nature reserve could be different from that for a painting or historic building.

The IPSASB directed that the simplified examples should be used as a basis to discuss applicable principles and draw out the important factors that are likely to guide the asset/not-asset decision for different categories of heritage items. The IPSASB discussed the idea that it could be offensive to some peoples to treat a sacred item as an "asset" and apply a monetary value to it. There were different views on when (or whether) this issue might arise. For example, the Malaysian Moslem view is that it is not offensive to apply a monetary value to a sacred place such as Mecca. Similarly, cemeteries are holy places but it is still acceptable to report them as "assets". Staff was directed to consider whether there is another, more objective, way to describe this factor, rather than the idea that something is "offensive".

For the evaluations of control the IPSASB directed that more examples of situations where ownership is unclear should be developed and discussed. For example, the implications of different types of public access to heritage items should be considered, e.g. free access to art in a museum versus a heritage statue that is part of a public thoroughfare. A New Zealand example was provided of a situation where "ownership" over a sacred mountain was a culturally sensitive issue. Legislation was enacted to deem that the mountain was legally a "person" and therefore could not be "owned", yet the financial reporting concept of "control" still meant that the mountain could be included as an asset in the national government's statement of financial position. In Switzerland there have been debates over church buildings, because it has been unclear whether they belong to local Roman Catholic communities or to Rome. Underwater heritage examples (shipwrecks) highlight the importance of identifying factors that indicate control over a resource. When is an entity able to exercise rights and receive benefits? Does a shipwreck need to be raised up before there is control over a resource? Shipwrecks cannot be assumed to be heritage items, since many shipwrecks have little or no historic value. A decision to grant protection to an underwater area may provide protection from deliberate harm without there being an intent to preserve indefinitely, because nature is allowed to take its course. Regulation may place limits around a heritage item without there being public sector control of that item for the purposes of financial reporting.

The IPSASB discussed statues in terms of whether they are necessarily heritage items. Not all statues are important enough to be viewed as heritage. In addition, perceptions of heritage may change over time for the same statue. An example was provided of a city's statue of Lenin which was first revered because of Lenin's importance, then later thrown out after the political context changed, and was subsequently rescued for its artistic significance. What factors indicate that an item such as a statue is worth preserving for future generations and is, therefore, a heritage item? How can the "intention to preserve" be established? Statues can also provide examples of disputed ownership, as governments have begun to repatriate heritage items that had previously been acquired through methods that are no longer acceptable, e.g. items plundered taken during war or colonialism.

IPSASB comments on the service potential of heritage items in museums included the issue of whether items in a museum's collection individually have service potential or whether only the collection as a whole has service potential. What motivates the public to visit a museum? If temporary exhibits are the main generator of service potential or cash flows for a museum through visitors and tickets sales, is the permanent collection a resource?

The heritage component of a building may be in its foundation, which raises the issue of whether, when the foundation is excavated to make its heritage character available to the public, this impacts on the existence or otherwise of a resource, since the foundation was already essential for the building. Does the heritage aspect add a new resource (the excavated foundation) or enhance the existing asset with implications for valuation (measurement)?

The IPSASB's discussion of intangible heritage items also raised questions about the "heritage aspect" of an intangible item. Once the original heritage idea or symbol (e.g. a national flag) is transformed into a commercial product, where control exists over the resource, the new saleable item (e.g. a flag pin) only represents the heritage item and is not itself a heritage item. Issues of control over a resource include ability to control concepts such as dance or tune. A general concept such as a "the waltz" could be considered a heritage item for Austria, but is not under the control of any entity. In what situations are specific dances or symbols able to be controlled? In New Zealand the "silver fern" is a highly regarded national symbol. The concept is available to everyone. However, rights over a specific version of that symbol are owned by the New Zealand Rugby Union. In the financial reporting context control is linked to the right to exploit something or to restrict usage of something. The intangible heritage items category includes items such as copyrights over old movies, audio recordings, and television series, an increasingly important area.

In summary the IPSASB indicated that staff should provide further discussion of intangible heritage items in the next issues paper (and ultimately the CP), noting that it may be the case that such items do not require special financial reporting treatment compared to present accounting for other non–heritage intangible items.

For the examples of natural heritage item the main directions to staff were to expand the discussion beyond restricted areas, explore the meaning of "preserve for future generations" when living organisms such as birds naturally have a limited lifespan, and provide more analysis around issues of length of time (long–lived or short lifespan) and nature of the holding (e.g. held for the purpose of conservation or held for commercial purposes). Comments included that: a rare bird cannot be a heritage item, since it cannot be preserved for future generation; The IPSASB noted further examples of natural heritage. The Matterhorn in Switzerland is an example of a heritage item that is owned by the Swiss government but not classified as a national park and classified simply as land for accounting purposes; in New Zealand different categories of land (conservation and commercial) are reported together by the government, although conservation land has different management costs and obligations.

Next steps are for staff to further develop the analysis of heritage items in the four categories, focused on factors that indicate whether a heritage item has service potential and whether control exists. The discussion of information needs and possible obligations should be developed through a more in–depth application of the Conceptual Framework. An initial discussion of measurement and disclosure issues raised by heritage items should be developed, which could provide insights into whether heritage aspects indicate the need for different accounting compared to that for similar non–heritage items.

Staff will develop a third issues paper which the IPSASB will discuss at its March 2016 meeting.

Closing Remarks and Conclusion of Meeting

The Chair thanked members for their engagement during a successful meeting in which three EDs and a project brief had been approved and the IPSASB had agreed the codification of due process and working procedures. Andreas thanked Mariano D'Amore, Wan Selamah and Tim Youngberry individually and asked the three retiring members if they wished to say a few words valedictory words. All addressed the IPSASB. They said that their terms as members had been an extremely positive experience and that they hoped to maintain contact with the Board. They particularly thanked the Chair for his leadership and also thanked their fellow members, their TAs and the staff.

The Chair expressed a hope that all would join the IPSASB Alumni Group. The meeting was then closed.

12. Appendix 1 – December 2015 Action List

Action Required	Person(s) Responsible	Date to be Completed
1. Communications		
• Action List posted to IPSASB Extranet	Leah Weselowski	December 22
• Draft minutes posted to IPSASB Extranet	Leah Weselowski	January 29
• Update IPSASB Summary of IASB Work Plan and Tracking Table	Ross Smith	February 19
• Update GFS Tracking Table	João Fonseca	January 29
• Meeting Highlights posted to IPSASB webpage	Leah Weselowski	December 22
2. Public Sector Combinations	Paul Mason	
• ED and At a Glance to Communications		January 15
• Publication of ED and At a Glance		January 28
3. Public Sector Financial Instruments	Ross Smith	
• Develop Issues Paper and draft CP for March Meeting		February 19
4. Financial Instruments: Update of IPSAS 28–30	Ross Smith	
• Revise approved project brief for IPSASB comments		December 22
5. Employee Benefits	João Fonseca	
• ED 59, At a Glance and full IPSAS marked up for proposed changes to Communications		January 5
• Publication of ED 59, At a Glance and full IPSAS marked up for proposed changes		January 13
6. Cash Basis IPSAS Review	Paul Sutcliffe/ John Stanford	
• ED and At a Glance to Communications		January 15
• Full IPSAS marked up for proposed changes to Communications		January 15
• Publication of ED, At a Glance and full IPSAS marked up for proposed changes		January 29
7. Public Sector Standard Setters Forum	John Stanford/Ian Carruthers	
• Agree final participant list		January 27
• Finalize, agenda and presenters/speakers		February 10
8. Revenue/ Non-Exchange Expenses	GASB	
• Develop Issues Paper and draft CP for March meeting	NZ XRB	February 22

Action Required	Person(s) Responsible	Date to be Completed
9. Emissions Trading Schemes • Develop Issues Paper • Revise Background Paper • Revise Description of Accounting Options	Gwenda Jensen	February 19
10. Governance Update • Send due process and working procedures to Public Interest Committee • Evaluate response to Consultative Advisory Group (CAG) Call for Nominations and select CAG members	John Stanford/ James Gunn	February 15 March 7
11. Heritage Assets • Develop Issues Paper for March meeting	Gwenda Jensen	February 19
12. The Applicability of IPSASs • Develop summary and analysis of responses to ED 56, Issues Paper and draft amendments to IPSASs and RPGs	João Fonseca	February 19
13. Leases • Develop Project Brief (if the IASB publishes the standard until February 12)	João Fonseca	February 19

13. Appendix 2 – Voting Record

Vote #1– Approve ***Employee Benefits***

Agenda Item 5	Minutes Item 5	**Date Vote Taken**	December 9, 2015
Description	Exposure Draft	Amendments to IPSAS 25, *Employee Benefits*	Approved at meeting
Final Standard □	**ED** ■	**CP** □	**Other** □

IPSASB MEMBER	FOR	AGAINST	ABSTAIN	ABSENT	TOTAL
Andreas Bergmann, Chair	√				
Jeannine Poggiolini, Deputy Chair	√				
Stuart Barr	√				
Michel Camoin	√				
Ian Carruthers	√				
Robert Dacey	√				
Mariano D'Amore	√				
Rachid El Bejjet				√	
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Angela Ryan	√				
Adriana Tiron Tudor	√				
Wan Selamah Wan Sulaiman	√				
Tim Youngberry	√				
Abdullah Yusuf	√				
TOTAL	**16**	**0**	**0**	**1**	**17**

Vote #2– Approve ***Cash Basis IPSAS***

Agenda Item 6	Minutes Item 6	**Date Vote Taken**	December 9, 2015
Description	Exposure Draft	Amendments to *Cash Basis IPSAS*	Approved at meeting
Final Standard □	**ED** ■	**CP** □	**Other** □

IPSASB MEMBER	FOR	AGAINST	ABSTAIN	ABSENT	TOTAL
Andreas Bergmann, Chair	√				
Jeannine Poggiolini, Deputy Chair	√				
Stuart Barr	√				
Michel Camoin	√				
Ian Carruthers	√				
Robert Dacey	√				
Mariano D'Amore	√				
Rachid El Bejjet				√	
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Angela Ryan	√				
Adriana Tiron Tudor	√				
Wan Selamah Wan Sulaiman	√				
Tim Youngberry	√				
Abdullah Yusuf	√				
TOTAL	**16**	**0**	**0**	**1**	**17**

Vote #3-Approve *Public Sector Combinations*

Agenda Item 2	Minutes Item 2	**Date Vote Taken**	December 11, 2015
Description	Exposure Draft	*Public Sector Combinations*	Approved at meeting

Final Standard □ **ED** ■ **CP** □ **Other** □

IPSASB MEMBER	FOR	AGAINST	ABSTAIN	ABSENT	TOTAL
Andreas Bergmann, Chair	√				
Jeannine Poggiolini, Deputy Chair	√				
Stuart Barr	√				
Michel Camoin	√				
Ian Carruthers	√				
Robert Dacey	√				
Mariano D'Amore	√				
Rachid El Bejjet				√	
Kenji Izawa	√				
Aracelly Méndez	√				
Rod Monette	√				
Leonardo Nascimento	√				
Angela Ryan	√				
Adriana Tiron Tudor	√				
Wan Selamah Wan Sulaiman	√				
Tim Youngberry	√				
Abdullah Yusuf	√				
TOTAL	**16**	**0**	**0**	**1**	**17**