1. **Attendance, Opening Remarks and Approval of Minutes**

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The IPSASB CAG Chair, Mr. Müller-Marqués Berger welcomed the members of the IPSASB Consultative Advisory Group (CAG) to Kuala Lumpur, Malaysia for the sixth meeting of the CAG.

The CAG Chair welcomed the new member representing the World Bank, Mr. Moustafa Ndiaye.

The CAG Chair thanked the Malaysian Institute of Accountants (MIA) for hosting the meeting in Kuala Lumpur.

The CAG Chair thanked members for their input on topics for the Agenda. Additionally, the CAG Chair thanked those in attendance and highlighted the importance of regular attendance.

The minutes of the June 18, 2018 IPSASB CAG minutes were approved.

The IPSASB Chair, Mr. Ian Carruthers presented the International Public Sector Financial Accountability Index 2018 Status Report (Index) published by the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The Index collected, verified, and analyzed current financial reporting frameworks used by federal and central governments around the world, and provides an overview of future accrual implementation trends based on current reform plans.

The IPSASB Chair informed the CAG that some past and present IPSASB members presented at the World Congress of Accountants (WCOA) in Sydney in November 2018.

2. Implementations Issues: Malaysia IPSAS Adoption Presentation

Mr. Müller-Marqués Berger welcomed Ms. Nor Yati Ahmad, Deputy Director, Policy and Standards Unit of Malaysia’s Accountant-General Department, to share a presentation on the IPSAS implementation project in Malaysia.

Ms. Nor Yati Ahmad explained that the journey to achieve greater transparency and efficiency of the public service started in 2011. She noted that local authorities and statutory bodies have transitioned to an accrual basis framework, but the federal and state governments continued to apply modified cash, with a planned transition to accruals to occur by 2021. Ms. Nor Yati Ahmad further elaborated on key aspects of the implementation project, including the development of Malaysian Public Sector Accounting Standards which were based on IPSAS.

The CAG members commented as follows:

- Mr. Matthews asked how the non-financial government staff felt about the change.
- Ms. Nor Yati Ahmad answered that the non-financial government staff resisted the change initially and needed to be convinced of its benefits by the Malaysian Prime Minister. The Prime Minister explained there was presently not a financial statement that provides a holistic view of the government, but one will exist after the change.
- Mr. Müller-Marqués Berger asked what the key factor was in obtaining political support.
- Ms. Nor Yati Ahmad responded that the Prime Minister of Malaysia supported the reform, which helped move the initiative forward.
- Ms. Sanderson asked how the support for this project was obtained, how the program was initiated, and prioritized.
- Ms. Nor Yati Ahmad explained the accountant-general initiated the transition to accruals. However, the project was supported by senior government staff, and the ministry secretaries. Implementing the new SAP system was the biggest challenge encountered during the transition period. SAP was used to allow parallel accounting under both modified cash and accruals, which was deemed necessary to give the government confidence.
Ms. Nor Yati Ahmad noted that once the new system was fully implemented, the focus will shift to training its users. A committee has been set up to review the accounting standards and the system will be used to assess compliance.

Mr. Müller-Marqués Berger asked for examples of audit risk areas that need to be addressed.

Ms. Nor Yati Ahmad responded with an example relating to accounting for assets, where capitalization was required above $2,000, but some officers did not know how to properly deal with such transactions.

Ms. Kim asked whether a consultant was involved in the SAP implementation.

Ms. Nor Yati Ahmad noted that a consultant was engaged and approximately 20% of the system required customization to make it more user-friendly.

Mr. Nazaroedin asked if a set of whole of government financial statements were prepared, and if so, how were issues related to eliminations on consolidation dealt with. He also asked if the budget basis has been changed.

Ms. Nor Yati Ahmad responded that state and federal whole of government financial statements have not been prepared yet, and at this point such a consolidation was not planned at either level. She added that the budget was prepared using the modified cash basis.

Mr. Chowdhury asked what the conversion time from IPSAS to MPSAS is.

Ms. Nor Yati Ahmad noted the conversion was a short and timely process.

Ms. Colignon commented that in France, the primary focus of Parliament members was on the budget; she asked how politicians and other users in Malaysia were engaged in relation to the use of accrual financial statements.

Ms. Nor Yati Ahmad explained that stakeholders were consulted. However, the budget was prepared on a cash basis and was the focus of politicians.

Mr. Gutu (IPSASB Observer) asked how the initiative would be sustained, noting the difficulty and lack of resources for on-going issues.

Ms. Nor Yati Ahmad noted sourcing resources needed for the reforms will be a challenge. She indicated this was a resource intensive project, with the new system requiring trained users. As it relates to sustaining momentum with the new accounting standards, Ms. Nor Yati Ahmad noted the auditor-general ensures compliance.

Mr. Müller-Marqués Berger asked how politicians were trained to promote the usage of the new information accrual accounting provides, and if there were plans on how the government might use it.

Ms. Nor Yati Ahmad confirmed that there was training for ministers and other politicians, adding that dashboard reports have been developed to track departmental performance.

Mr. Monette (IPSASB Member) observed that Malaysia progressed quickly. He expressed his appreciation of how well Malaysia has managed the transition project.

Mr. Müller-Marqués Berger thanked Ms. Nor Yati Ahmad for her presentation that informed an interesting discussion. He noted how positive it was to see how far Malaysia has progressed in a short period of time.

3. Implementation Issues: Presentation by CAG Member, Luis Viana

Mr. Müller-Marqués Berger welcomed CAG member Mr. Luis Viana to the table to share a presentation on implementation issues, specifically focusing on some challenges noted in Portugal during its transition to, and implementation of, IPSAS. Mr. Viana provided an overview of the IPSAS adoption and implementation project in Portugal, noting that it was part of a wider PFM reform.

The CAG members commented as follows:

- Mr. Boutin asked what criteria was used to determine which entities qualified for the simplified accounting framework and what the main differences are.
Mr. Viana indicated the simplified accounting framework was developed in conjunction with the audit office and applied to small entities that represent less than 1% of the government expenditures. There were also medium sized entities that spend between 1 and 5 million Euro, with different requirements. Entities in both the small and medium groups applied IPSAS-based standards, with modifications that limited accounting policy options.

Mr. Page questioned the accountability of the state accounting entity and asked for a description of the reforms Portugal implemented after the 2008 financial crisis.

Mr. Viana indicated the entity was accountable to the tax authority and that the ministry of finance was being restructured in response to the reforms. Furthermore, Mr. Viana noted, the period from 2011 to 2014 was a challenging one for Portugal. Technical assistance from IMF and other entities was needed. The consequences from the financial crisis were the main impetus for the reforms.

Mr. Gisby asked what the specific challenges and benefits of Blockchain were and asked if non-financial information needs were also considered.

Mr. Viana stated that a major benefit occurred when a transaction was processed. Both entities agreed the transaction details and the Blockchain system recorded the information centrally. Regarding non-financial information, Mr. Viana stated some entities had mandates to provide services that were not financially measurable. There was an appetite to integrate the PFM system with management reporting.

Mr. Müller-Marqués Berger asked for clarification regarding Blockchain at the transaction level.

Mr. Viana clarified that when there was a receivable and a payable within the same group, the Blockchain allowed for a central reconciliation and allowed for eliminations to be identified. This aided the consolidation process.

Ms. Colignon noted the importance of an independent standard-setter for the public sector and asked about the standard-setting process in Portugal.

Mr. Viana explained that there were two branches in standards setting; public and private. The public sector committee had several members from public sector entities and the standards were approved by the Ministry of Finance.

Mr. Matthews noted that XBRL never took hold in Canada and wondered if the same might happen with Blockchain. He asked an open question on how Blockchain might impact standards. He further indicated that Canada had issues around the implementation of standards. He asked how such issues were considered by the IPSASB?

Mr. Carruthers (IPSASB Chair) recognized implementation of standards as an important issue. He noted that, on the implementation side, there have been discussions with IFAC and the Accountability Now initiative on this and on IPSASB’s roles and responsibilities in this space.

Mr. Smith noted that implementation of standards was a challenge faced by all standard-setters. He noted that the IPSASB has taken a proactive approach when developing standards to ensure implementation in the public sector. For example, IPSAS 41, Financial Instruments, added several public sector relevant examples and implementation guidance to help with the understanding of how the principles should be applied. An implementation resources webpage was created to better support constituents understanding of the new standard and key points of importance. This was an on-going discussion point as the IPSASB considers ways to help with the implementation of IPSAS.

Mr. Ndiaye noted that accounting reform was a part of PFM reform and questioned if there was political support for the reform.

Mr. Viana stated that reforms were triggered by the global financial crisis. The reform was agreed upon by the main political parties. The design of the PFM reforms was based on information needs and the new accounting system was linked with national accounts needs, which was important in Portugal.
• Mr. Müller-Marqués Berger noted that to increase the relevancy of accrual information it had to be linked to the budget and the impact of decisions. He agreed that accrual accounting reforms were best placed as part of a broad PFM reform.

• Ms. Sanderson inquired about the relationship with national accounts.

• Mr. Viana stated that that national statistics department has been involved since the beginning of the reform, so that the accrual accounting information was useful as an input into statistical accounting.

• Mr. Müller-Marqués Berger noted that even one shared accounting information database was a major innovation. He stressed that to avoid confusion there was a need to make sure there was consistent messaging about the accounting information, even if it was used for different purposes (entity accounting vs. macroeconomic statistical accounting).

• Mr. Carruthers noted that it was important that the reconciliation between the statistical national accounts and entity financial reporting ensured transactions were appropriately classified between each set of books. This required a good process and an on-going dialogue between the entity accountants and the statistical accountants to ensure complete understanding on both sides.

Mr. Müller-Marqués Berger thanked Mr. Viana for his presentation. Mr. Müller-Marqués Berger indicated the CAG will follow Portugal’s progress closely as continues its journey.


Mr. Stanford, IPSASB Technical Director, updated the CAG on the current progress of ongoing projects and provided an overview of significant changes since the June 2018 CAG meeting. Mr. Stanford informed the CAG that the current work plan was developed with feedback from the IPSASB’s Strategy and Work Plan consultation that was undertaken in 2018 – this included a formal consultation document and roundtables conducted in Europe, Asia, Africa and South America. Because of this, the IPSASB looked to add projects on Natural Resources and a Limited Scope Review of the Conceptual Framework to the work plan when it approves the Strategy and Work Plan 2019-2023 at the December 2018 meeting. Mr. Stanford noted that the work plan was based on the assumptions that there was a full staff complement and that preliminary views in consultation papers were accepted by constituents and that no consultation documents required re-exposed.

Regarding specific projects, Mr. Stanford informed the CAG that:

● An IPSAS on Social Benefits and an Exposure Draft on Collective and Individual Services were expected to be approved at the December 2018 IPSASB meeting, with a final pronouncement on Collective and Individual Services expected to be approved in December 2019.

● Three exposure drafts were envisioned to be approved in 2019 related to the Revenue and Non-Exchange Expenses Projects.

● The Heritage and Infrastructure projects have been delayed and were expected to recommence in June 2019 when they will be taken forward in conjunction with the Measurement project.

● The CP on Measurement has been delayed until March 2019.

● The early approval of IPSAS 41, Financial Instruments, in June 2019 has allowed staff to progress with the Public Sector Specific Financial Instruments project.

The CAG members commented as follows:

● Ms. Cearns commented that the current project plan looked realistic but cautioned about taking respondent views purely on a numerical basis. She emphasized that it was important to look at the quality of the arguments put forward from constituents to determine which option(s) to proceed with.

● Mr. Stanford responded that while there can be a tendency to adopt the majority view, the IPSASB ultimately considers the quality of the arguments.
Ms. Cearns asked if there was a requirement to re-expose if the IPSASB proceeded with an approach that maintained alignment with IFRS 16, Leases.

Mr. Stanford replied that if IPSAS 13, Leases was retained then there was no requirement to re-expose, however, if the project moved forward to align with IFRS 16, re-exposure was necessary, as the lessor accounting proposals in the ED were not consistent with IFRS 16.

Ms. Colignon questioned whether OCI should be revisited, maybe as part of the limited review of the Conceptual Framework.

Mr. Stanford responded that the EPSAS working group also looked at OCI and it may be looked at in the limited scope review of the Conceptual Framework. He further commented that the IPSASB did consider OCI when developing the Conceptual Framework and it was strongly rejected. However, he noted that the IPSASB composition has changed since the Conceptual Framework’s approval and there have been changes to the IASB Conceptual Framework since it was last discussed by the IPSASB.

Mr. Gisby questioned the change from the use of ‘convergence’ to ‘alignment’ in regards IFRS related IPSASB projects, and whether this implied a moving away from IFRS, and why the change of wording was deemed necessary.

Mr. Stanford commented that the use of the word ‘convergence’ implied a subordinate relationship with the IASB and translation issues existed. The wording change came about through comments received to the Strategy and Work Plan 2019-2023 consultation and input received during roundtables held during the comment period. He noted there was no intention of moving away from IFRS convergence/alignment where appropriate.

Mr. Carruthers commented that the Conceptual Framework was a public sector framework, although it was aligned with the IASB Conceptual Framework where appropriate. He also noted that the word ‘alignment’ was used in the context of Government Finance Statistics (GFS).

Mr. Stanford noted that IPSAS 42, Social Benefits, has a summary of differences with GFS, similar to the summary of differences with IFRS.

Ms. Sanderson asked what consideration had been given to CAG input and how CAG input can be maximized.

Mr. Stanford responded saying it was very important to get CAG input at the beginning of projects, particularly when developing project briefs, because a well-developed project brief was important to running a project. Further, it was noted that CAG input has become an important element as all IPSASB projects develop, and that staff and the CAG Chair fed in the CAG discussion input at appropriate times during board debates.

5. Leases

IPSASB Principal, João Fonseca introduced the Agenda Item noting this was the first time the project has come back to the CAG since the release of the ED.

ED 64 proposed a single right of use model for accounting for both lessees and lessors. There was overall support for the lessee accounting proposals, however, support for the lessor accounting and concessionary leases proposals was mixed.

In September, the IPSASB took a tentative decision to proceed with the proposals on lessee accounting and agreed to a develop a new timeline and obtain views from the CAG on key issues highlighted by respondents.

The first area the IPSASB sought CAG views was whether there were any other actions in developing the leases project the IPSASB should consider.
The CAG members commented as follows:

- Ms. Cearns asked how the current issue the IPSASB was dealing with was different from what the IASB did. She asked if the IPSASB was debating the same items previously debated as part of the development of IFRS 16.

- Mr. Smith indicated that one of the reasons the IPSASB agreed to extend the timeline was to allow for time to review the IASB's considerations again.

- Ms. Colignon expressed that extending the project timeline was worthwhile and in the public interest. There seemed to be a need to provide support on how to report separately rights and obligations arising from separate economic phenomena that related to one same underlying asset. She indicated constituents get confused when reporting separately two transactions (i.e. the right of use and the physical asset) that related to one same asset, and this was where the question of double counting arises. Taking the extra time can be used for communication with the constituents on this.

- Ms. Sanderson indicated this was a challenging issue. The IASB took a long time to figure it out. Her view was that from a public interest perspective, there were two ways to proceed:
  - Align with IFRS 16, and potentially consider this issue again in the future after the more important issues on the IPSASB work plan were dealt with; or
  - Slow down the project as Ms. Colignon suggests.

- Mr. Stanford indicated it might be better to stick with existing IPSAS 13 rather than moving to IFRS 16, only to change it down the track. Ultimately, he suggested it was better to make one change rather than two.

- Ms. Sanderson noted the context needed to be considered as well as how long it will take.

- Mr. Smith indicated the IPSASB has made the decision to extend the timeline to review all options. The IPSASB did not want to make a snap decision and they were open to and were considering all options.

- Mr. Carruthers noted there was no easy answer to this. He agreed that the IPSASB should not spend years re-deliberating points already considered by the IASB, and that the IPSASB received criticism from some jurisdictions when it departs from IFRS. However, others criticized the Board for insufficient consideration of public sector specific issues occurs when the IPSASB aligns with IFRS.

- Mr. Matthews understood the new plan but did not think that taking more time was going to change constituents' views. Instead he suggested the IPSASB focus on:
  - Public sector differences; and
  - Consistency with the IPSASB conceptual framework

  He suggested explaining and communicating the IPSASB's decision, rather than trying to get further buy in.

- Ms. Cearns updated the CAG on the implementation of IFRS 16 in the UK government. Some provisions were in place to make it easier to apply in practice. For example, there were discount rate changes to make it easier to get the internal rate of return. Furthermore, most departments have deferred for a year because of the adoption challenges. Only two departments have adopted on schedule, one of which was the department of transportation which applies IFRS.

- Mr. van Schaik asked if the lessee accounting guidance could be turned into a standard, while the lessor accounting work was continued. He noted the reason the IASB changed the leasing standard was because of all the off-balance sheet leasing, which in his view was not as big of an issue in the public sector.

- Mr. Stanford indicated it was not clear cut what to do on re-exposure if the IPSASB aligned only with the lessee accounting.
Mr. Page indicated from a public interest perspective, governments spent a lot of money on infrastructure assets, often through leasing transactions. Therefore, time spent to appropriately account for leasing transactions seemed like time well spent.

The second area where the IPSASB sought CAG views relates to double counting. The IPSASB had considered this issue when developing ED 64, and agreed that the asset and the lease receivable should be recognized by the lessor. Some respondents viewed this as double counting and have proposed offsetting the asset and liability or impairing the underlying the asset.

The CAG members commented as follows:

- Ms Busquets indicated she understands the lease and the right of use are different economic phenomenon, but she disagrees with the control assertion in all circumstances. Her view is that control might be transferred with the right of use to the lessee and in such cases the underlying asset should be derecognised from the lessor’s financial statements as currently required when the lease is classified as a finance lease.
- Mr. Yousef did not think it was double counting, but he did think assets and liabilities were overstated. He questioned whether recognizing a leased asset and then recognizing the right of use asset was appropriate. For example, what if a fully depreciated asset was leased. The asset was recognized at a value of zero, but now the right of use was recognized so should the asset now have a value?
- Mr. Boutin thought it was an interesting question. He wondered if, from an auditor’s point of view, both assets existed. In his view, he believed both assets exist as there was a physical asset, and a separate lease contract for future cash flows. However, the next consideration was measurement. Measurement of the lease receivable by the value in use was straight forward as there were contractual cash flows, but valuing the asset was more challenging. His view was that the measurement of the asset may be impacted when you lease the asset because the same stream of cash flows would be used to value both assets.
- Mr. Smith agreed that the scenario presented by Mr. Boutin was plausible. However, the IPSAS on impairment would be the appropriate place to judge if there was an impairment of the asset triggered by the lease.
- Ms. Cearns agrees with Mr. Boutin. She did not think the terms of double counting, etc. should be taken literally when used by the respondents. She struggled with increasing the value of the asset for its right of use and notes the arguments in the paper were open for debate and noted that she disagreed with several of them.
- Mr. Gisby agreed with most of the points made in the discussion. As an accountant he did not think it was double counting. But from a public interest perspective, it was difficult to explain, and he suggested avoiding the technical definitions of double counting, etc. and thinking about the issue from a public interest perspective.
- Ms. Colignon noted everything might be sound conceptually, but because several constituents continued to raise the double counting idea, there may be a practical issue that should be considered further. She suggested, the IPSASB may want to consider if it was useful to gross up the asset/liability, especially when the arrangement was between public sector entities. Some recently issued pronouncements departed from the right of use accounting treatment in some specific and well delimited cases, for instance, intragovernmental entities in FASAB\(^1\) SFFAS\(^2\) 54.
- Mr. Viana agreed there was no double counting from a conceptual perspective, however his view was there may be a valuation issue in relation to the leased asset.

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1 Federal Accounting Standards Advisory Board
2 Statement of Federal Financial Accounting Standards
The third area where the IPSASB sought CAG views related to the recognition of a subsidy in a concessionary lease.

ED 64 proposed the recognition of the subsidy in concessionary leases for both the lessee and lessors. Respondents had mixed views to this proposal.

The CAG members commented as follows:

- Ms. Cearns agreed with the ED proposals. Her view was that it may not be contradictory for a respondent to have disliked the lessor accounting proposals and to have agreed with the proposed accounting for concessionary leases.
- Ms. Sanderson questioned if consideration had been given to whether accounting for the subsidy increased public accountability, especially when such transactions were within the public sector.
- Mr. Fonseca indicated that one view was that public accountability was improved through transparency, when subsidies were embedded in leases. This was still important when the transaction was within the scope of the government, as only a limited number of governments prepared consolidated financial statements at this time.
- Ms. Sanderson suggested that further consideration should be given to the practical challenge of valuing transactions in the public sector under the proposals.
- Ms Busquets view is that this issue needs a complete re-think and further discussion by the IPSASB in terms of how it fits in the current definition of a “lease”.
- Mr. Matthews agreed with recognizing and presenting the subsidies embedded in leases, as there was a large quantity of such transactions. However, he did recognize that there may be a practical issue from a cost-benefit perspective that should be considered. He further noted that it was challenging to value these transactions by preparers and saw scope for on-going issues related to their valuation from the auditors.
- Ms. Colignon noted there were issues between the conceptual thinking related to these transactions and practically applying the guidance, as Mr. Matthews and Ms. Sanderson have noted.
- Mr. Ndiaye noted when it comes to asset costing, there were more and more innovative financing initiatives occurring, which may have increased the practical challenges of applying these proposals. This may have also made the cost benefit analysis more challenging.
- Ms. Cearns asked what the IPSASB was going to do with regards to the IASB if the IPSASB ended up diverging from IFRS 16. She suggested if the IPSASB believed it has a good answer, this would apply as much to the private sector as the public sector. She suggested telling the IASB there was a good solution for them to consider.
- Mr. Stanford noted that the ISPASB will raise this to the IASB in March 2019 at the next annual update meeting.

6. Public Sector Measurement

IPSASB Principal, Gwenda Jensen, introduced the Agenda Item and highlighted that the IPSASB was pioneering a new approach with this project to improve its consultations with its constituents. This approach provided both:

- A concepts-based discussion, in the Consultation Paper, which identified areas where the IPSASB has reached preliminary views; and
- An Exposure Draft, which illustrated the IPSASB’s ideas with specific and more detailed proposals for measurement.

The IPSASB sought CAG views on the following:
• Question 1: What are the thoughts on the ED content and the integration of Fair Value guidance in the ED?
• Question 2: Will the changes proposed support preparers and users of financial statements?
• Question 3: Are there any public sector issues to be considered?

The CAG members commented as follows:

● Ms. Cearns noted for question 2, she believed the answer was yes, assuming all goes as planned. She noted no other public sector issues for questions 3.
● Ms. Colignon suggested adding the conceptual framework to the diagram on page 5 and noted a point on market value seemed to be missing as it was specifically discussed in the conceptual framework. There was a Basis for Conclusion in the ED on why market value was not retained, but she did not believe it was clear. For question 3, she noted constituents in Europe liked to use symbolic value, so it would be a good idea to have considered this as well. In her jurisdiction constituents liked to see the asset recognized even if it was difficult to value.
● Ms. Jensen acknowledged the point on market value and fair value. She noted it has come through several national standard setters for the December IPSASB meeting. Symbolic value was not considered an appropriate measurement basis in the Conceptual Framework. However, it was an issue which was raised by constituents in relation to the heritage project.
● Mr. Stanford stated there will need to be more analysis and discussion on market value and fair value in the measurement project. There also needed to be further consideration as to whether market value should be retained in the Conceptual Framework.
● Mr. Matthews thought the public interest issue was explaining to non-financial individuals which values were appropriate and when they should have been used. Regardless of what the outcome was for this project, some people believe fair value was appropriate in many circumstances, however, in his view this can lead to poor short-term decisions.
● Ms. Sanderson generally agreed, but for question 3 she noted the IPSASB should focus on consistency of language around measurement in the IPSAS.
● Ms. Cearns agreed with Ms. Sanderson and agreed with Mr. Matthews that the IPSASB needed to be cognizant of what was the appropriate measurement basis for different types of instruments and transactions.
● Mr. Page noted that as we move deeper into an information economy and a digital work, we needed to consider how intangibles related to that were valued. Was this to be explored in the scope of this project?
● Ms. Jensen noted that this was not in scope of the measurement project specifically.
● Mr. Stanford, responded to Mr. Matthews, noted the IPSASB had acknowledged the importance of fair value for financial instruments. Further, he noted that fair value was the default measurement basis within current value. However, a range of measurement bases were used throughout IPSAS in addition to fair value.
● Mr. Carruthers noted this was a complex area. He noted the IPSASB was trying to do more than the IASB did with its project to develop IFRS 13 by covering both this and the other commonly used measurement bases, as well as making the links to international valuation standards and GFS.
● Mr. Müller-Marqués Berger thought this discussion showed the benefit of including all measurement basis into one standard, as the IPSASB currently intends with this project.

The IPSASB was currently developing a CP on measurement which will incorporate the main principles that will form a future ED. After the CP stage, the IPSASB will publish an ED on measurement, including all the proposed consequential amendments.

The IPSASB asked for feedback from the CAG on how this should be communicated, including whether there were any public interest issues that should be considered.
The CAG members commented as follows:

- Ms. Sanderson thought it was great the IPSASB was trying to be innovative to get standards out more quickly.

- Ms. Cearns thought the approach was interesting, however, there was a tricky situation to navigate. When people see an ED embedded within the CP, they may take the view that the project was close to being final. There may also be confusion around a preliminary view being included within the CP and a preliminary view within the embedded ED. There was a risk that if the responses to the CP proposed changes in the project direction, there may be a lot of additional work required to also change the ED. She noted concern with only seeing the consequential amendments at the ED stage, as she believed these were important to judging the proposals related to the embedded ED.

- Ms. Colignon noted she agreed with comments made by Ms. Sanderson and Ms. Cearns. There may be a perception the IPSASB was trying to bypass the ED stage of due process. She asked for clarification on what would happen if the answers to the CP changed the direction of the ED.

- Mr. Gisby thought it was an interesting approach and agreed with Ms. Cearns that the consequential amendments were needed to appropriately judge the embedded ED proposals. He asked whether this approach was appropriate for other projects and whether the IPSASB was setting itself up to draft EDs which may go nowhere.

- Mr. Carruthers noted the Public Interest Committee (PIC) has challenged the IPSASB on timeliness of the standard setting process. This approach was a way for the IPSASB to try and move projects along in a more timely manner. This was a complex project where the IPSASB was trying to do several things. Ms. Colignon was right to highlight the risk that constituents take a view that due process was not being followed. Ms. Cearns pointed that there was a risk that an ED may be developed that does not end up being used, was a valid one. These risks highlight the importance of the IPSASB telling the story to move the project forward while still reviewing comments. At the end of the day, the aim of the CP with the embedded ED was to receive feedback earlier on the principle that may form the final ED, to help ensure constituents views were integrated sooner into the project, which should help with timeliness.

- Ms. Chai believed the approach works for this topic because it was definitional.

- Mr. Chowdhury thought it was good to embed the ED into the CP, to promote receiving feedback from constituents earlier in the project.

### 7. Grants and Other Transfers (Revenue and Non-Exchange Expenses)

IPSASB Manager, Standards Development & Technical Projects, Joanna Spencer introduced Agenda Item 7 Grants and Other Transfers (Revenue). IPSASB Principal, Paul Mason discussed Non-Exchange Expenses.

Ms. Spencer reminded the CAG that three issues were discussed at the June 2018 meeting.

- The Public Sector Performance Obligation Approach (PSPOA) for Revenue.
- The concept of performance obligations beyond those which includes a transfer of goods and/or services.
- Recognition of services in kind.

Ms. Spencer informed the CAG that staff would discuss revenue transactions with time requirements at this meeting.

**Revenue: Time Requirements**

Ms. Spencer made the following comments:

- Respondents to the Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, noted that IPSAS 23 was too restrictive in not allowing revenue to be recognized
over time when funding was received for a specific purpose. Revenue recognized on day one may result in a surplus which some constituents note was not useful information for financial reporting as they revenue was meant for a specific period. IPSAS 23 did not deal with the intentions of the donor for funding to be used over several financial reporting periods.

- The CP provided four approaches:
  - Option A: Require enhanced display and/or disclosure;
  - Option B: Classify time requirements as a condition;
  - Option C: Classify transfers with time requirements as ‘Other Obligations’; or
  - Option D: Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance.

- There were mixed responses from stakeholders to the CP.

The CAG members commented as follows:

- Ms. Cearns was supportive of Option C or D. The United Kingdom prefers Option A.
- Mr. Viana mentioned that Portugal currently uses a recycle mechanism similar to Option C or D.
- Ms. Sanderson raised a question about how to measure the intention for the use of funding, and what this means for Options C and D.
- Mr. Müller-Marqués Berger highlighted that there was a possibility that a higher-level government may transfer money to a lower level of government without stating any conditions in relation to how it is used.
- Mr. Gisby preferred Option C as it avoids large increases in revenue in the first period.
- Ms. Colignon explained that in her experience governments rarely provide the full funding tranche upfront in year 1, because it would convey a need to raise taxes in one same period to fund the full subsidy amount. In that very specific public sector context, she wondered how the timing of cash receipts might impact revenue recognition if they were received in instalments.
- Ms. Busquets supported Option A because the credit entry for Option C was not likely to meet the definition of a liability in the Conceptual Framework.
- Mr. Matthews preferred Option C and D because the federal government in Canada struggled with this issue in practice. Accounting for transfers to lower levels government was an important issue in Canada as the federal government collects a large share of tax revenues which were then distributed to lower levels of government.
- Mr. Gutu (IPSASB Observer) mentioned that the United Nations (UN) system was grappling with this issue. There were inconsistencies in the view of what the appropriate accounting treatment should be for such transactions between preparers of the UN system organizations and the external auditors. He elaborated that Option A enhanced the information displayed, but did not add value in his opinion. The UN system prefers Option C or Option D.
- Mr. Müller-Marqués Berger summarized that he saw fewer CAG members supporting Option A than Option C or D.

Time requirements for Non-Exchange Expenses

Mr. Mason made the following comments to the CAG:

- The issues regarding accounting for non-exchange expense transactions with time requirements were similar to those discussed above for revenue.
- Currently there was no IPSAS that addresses these transactions. Applying IPSAS 23 by analogy to expenses would result in an expense being recognized immediately unless the arrangement included a return obligation.
- Three Options were proposed:
  - Option A - Enhanced display and disclosure;
  - Option B - Classify transfers with time requirements as other resources; or
Option C - Recognize transfer with time requirements in net assets/equity and recycle through the statement of financial performance.

The CAG members responded as follows:

- Ms. Sanderson was unsure whether symmetry of revenue and expenses was needed or appropriate. In her experience, often the decision has already been made when the higher level of government transfers money to a lower level (for example, when the commonwealth government provided transfers to state governments). Ms. Sanderson favored Option A.
- Ms. Cearns favored Option A and noted her view that the expense should be recognized immediately.
- Ms. Busquets favored Option A to recognize the expense immediately.
- Mr. Viana noted that expenses should be recognized immediately because there was no control over the resources.
- Mr. Gisby supported the symmetry and preferred Option B.
- Mr. Ndiaye favored Option B or C because accountability was important.

8. Closing Remarks

Mr. Müller-Marqués Berger summarized the day’s discussions. He thanked the members in attendance for their great contributions and he noted that the discussions were focused and allowed the CAG to engage at the appropriate level.