Managing Innovation - Financial Reporting
driving change.
With an update from IPSASB

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Past IPSASB Chair

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Halifax NS, Canada
16-18 September 2017
Managing Innovation – Financial Reporting Driving Change
Government and Innovation

• Some critical research, but also:
• Early Canadian research: (e.g. Borins, 2001)
  – “The public sector has traditionally been seen in hospitable to innovation”
  – Strong evidence for both government and middle-management/frontline driven innovation in the Canadian Public Sector

• COCOPS (EU research program on public management, 2011-14, www.cocops.eu)
  – “considerable evidence to argue that some of the central reform measures (...) have led to certain improvements”, in particular performance management and decentralization (Dan/Pollitt, 2014)

• IMF (2012): Positive effects of standard based accrual accounting
Managing Innovation – Financial Reporting Driving Change

Financial reporting and innovation

• Individual examples of Financial Reporting Driving Change
  – Swiss Upper Secondary Education: Enabled through full accrual cost calculation, allowing to reallocate budgets within the system
  – Chilean PPPs: Requirement to recognize government obligation has led to more favorable contracts from government perspective
Managing Innovation – Financial Reporting Driving Change

Financial reporting and innovation
• Individual examples of Financial Reporting Driving Change (2)
  – Colombian Defense Forces: Full accrual has improved asset management
  – New Zealand’s Social Investments: The discussion of a possible obligation for future social welfare obligations has led to the investment approach
  – Indonesia’s transfers to local governments are linked to compliance with accounting standards
  – …
  – Your example from your jurisdiction 😊
Current IPSASB work programme: Key projects 2016 - 2018

<table>
<thead>
<tr>
<th>Project</th>
<th>Public sector specific</th>
<th>IFRS convergence</th>
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</thead>
<tbody>
<tr>
<td>Social Benefits</td>
<td>✓</td>
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<tr>
<td>Revenue &amp; Non-Exchange Expenditure</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial Instruments</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Leases</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Public Sector Measurement</td>
<td>✓</td>
<td></td>
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<tr>
<td>Heritage</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Infrastructure Assets (starting September 2017)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Cash Basis IPSAS (limited-scope update)</td>
<td>✓</td>
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</table>
IPSASB progress since 2016

Final pronouncements approved:
• Applicability of IPSASs
• Update of IPSAS 25 Employee Benefits – IPSAS 39
• Public Sector Combinations - IPSAS 40
• Impairment of Revalued Assets
• Minor Improvements

Staff Papers issued:
• Emissions Trading Schemes
• Q&A’s:
  – State owned enterprises
  – Materiality
IPSASB progress since 2016 (2)

Consultation Papers (CPs) issued for comment:

- Public Sector Financial Instruments – monetary authority issues
- Heritage
- Revenues (will be discussed today)
- Financial Instruments (will be discussed today)
Social Benefits: Revised coverage

Projects

Social Benefits

Social Assistance (Excluding Universal Services)

Social Security (Excluding Universal Services)

Non-Exchange Expenses

Universal Services and Grants, Contributions and Other transfers

Collective Services

IPSAS 39

Employment Related Social Insurance
Social Benefits: Obligating event approach

Key Participatory Events Occur
Some but not all eligibility criteria may be met

Eligibility Criteria Initially Met

Eligibility Criteria Met to Receive Next Benefit
Eligibility Criteria Met to Receive Next Benefit Claim Approved
Eligibility Criteria Met to Receive Next Benefit Claim Approved Payment Date Arrived

Eligibility criteria met to receive next benefit
Being alive as recognition criterion?

Earliest Recognition Point

Not included

Latest Recognition Point

Key Participatory Events

Threshold Eligibility Criteria

Approved Claim

Enforceable Claim

Earliest Recognition Point

Latest Recognition Point

Eligibility Criteria Met to Receive Benefit

Approved Claim

Enforceable Claim

Earliest Recognition Point

Latest Recognition Point

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### Revenue Reporting Options

<table>
<thead>
<tr>
<th>Current Classification</th>
<th>Exchange</th>
<th>Non-Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category C</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Converged IFRS 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enforceable agreements with performance obligations to transfer services on commercial terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examples</td>
<td>e.g. fees from professional services provided at market rates</td>
<td></td>
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</tbody>
</table>

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<tr>
<th>Potential Re-classification</th>
<th>Performance Obligation</th>
<th>No Performance Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category B</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector Performance Obligation Approach?</td>
<td></td>
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</tr>
<tr>
<td>Satisfaction of performance obligations but do not include all the characteristics of a commercial based transaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examples</td>
<td>e.g. funding to deliver subsidised health services</td>
<td></td>
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</tbody>
</table>

| **Category A**               |                        |                           |
| IPSAS 23 based standard     |                        |                           |
| No performance obligations or stipulations | | |
| Examples                     | e.g. taxes, transfers, grants with no restrictions over use | |
Non-Exchange Expenditure

- Non-exchange expenses outside Social Benefits project:
  - Universally Accessible Services (e.g. Education and Health)
  - Collective Services (e.g. Defense)
  - Grants, Contributions and Other Transfers

- No current IPSAS

- Approach consistent with Social Benefits and new revenue IPSASs

- Two potential approaches:
  - Extended obligating event approach (IPSAS 23 reverse)
  - IFRS15 – based performance obligation approach (reverse of revenue)

- Universally Accessible Services and Collective Services
  - No performance obligation so apply Extended Obligating Event Approach
  - Immediate expense recognition as no obligating event

- Grants, Contributions and Other transfers – reverse of revenue approach
IPSASB Financial Instruments projects

- Two Financial Instruments Projects
  - Update of IPSASB 28-30 (IFRS Convergence)
  - Public Sector Specific Financial Instruments
Principle-based guidance in the authoritative parts of ED 62 (core standard and application guidance) consistent with IFRS 9

- New classification and measurement requirements for financial assets and liabilities
- Expected credit loss impairment model to replace the incurred loss model
- Additional flexibility for hedge accounting models – allows for greater alignment with risk management practices
- Authoritative guidance for concessionary loans, financial guarantees issued through non-exchange transactions and equity instruments with a non-exchange component
- Additional public sector specific illustrative examples/implementation guidance added
## Public Sector Specific Financial Instruments: Issues

<table>
<thead>
<tr>
<th>Public Sector Specific Financial Instruments Topics</th>
<th>How and Where Topic Considered</th>
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<tbody>
<tr>
<td>Monetary Gold&lt;br&gt;Special Drawing Rights&lt;br&gt;IMF Quota Subscription&lt;br&gt;Currency in Circulation</td>
<td>Public Sector Financial Instruments Project – July 2016 Consultation Paper</td>
</tr>
<tr>
<td>Concessionary Loans</td>
<td>Application Guidance included in IPSAS 29 (retained in ED 62)</td>
</tr>
<tr>
<td>Financial Guarantees</td>
<td>Application Guidance included in IPSAS 29 (retained in ED 62)</td>
</tr>
<tr>
<td>Statutory Payables and Receivables</td>
<td>Revenue and Non-Exchange Expenses Project – CP August 2017</td>
</tr>
<tr>
<td>Public Sector Specific Securitizations</td>
<td>Application Guidance in ED 62</td>
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</table>
2023: The Vision

Majority of central governments on accrual
- IPSASB as key advocate and facilitator
- Strong global and regional adoption coordination

Accrual information seen as essential for strong PFM
- International organisations promoting IPSAS – guidance on usage
- Ratings agencies increasingly demanding IPSAS-based information

‘Complete’, up-to-date and relevant IPSASs suite
- Major public sector gaps filled
  - Fully converged with latest relevant IFRSs
    - Effective stakeholder communication tool
2019-23: Strategic challenges

- Complexity of PFM landscape
- Coordination with other stakeholders?
- Relative balance between:
  - Addressing public sector-specific issues
  - Maintaining IFRS convergence
  - Improving financial reporting communication
  - Promoting accrual-based information usage
- Board’s role in relation to adoption and implementation?
- How do these demands fit with available resources?
1) Setting standards on public sector specific issues
2) Maintaining IFRS convergence
3) Improving financial reporting communication
4) Promoting IPSASs adoption and implementation
5) Raising awareness of benefits of accrual-based information usage
Delivering the Vision:
New Strategy and Work Plan for 2019 onwards….

2017
- Task force discussion
- Board debate
- CAG & PIC input
- PSSSF discussions

2018 H1
- Consultation Paper
- Roundtables
- Board outreach

2018 H2
- Review responses
- Board debate
- CAG & PIC input
- Final approval

2019
- Publication
- Project brief development
- PSSSF discussions
- CAG & PIC input
- Projects start…
Questions, discussion & further information

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  - Technical Director: johnstanford@ipsasb.org