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IPSAS Presentation to the IAOC

IAOC/33

May 20, 2014

IPSAS Presentation to the IAOC

Topics to be covered:

1. Introduction to IPSAS
2. IPSAS adoption in the UN system
3. IPSAS accounting requirements
4. IPSAS impacts at WIPO
5. WIPO 2013 financial statements
6. IPSAS going forward
7. Q & A

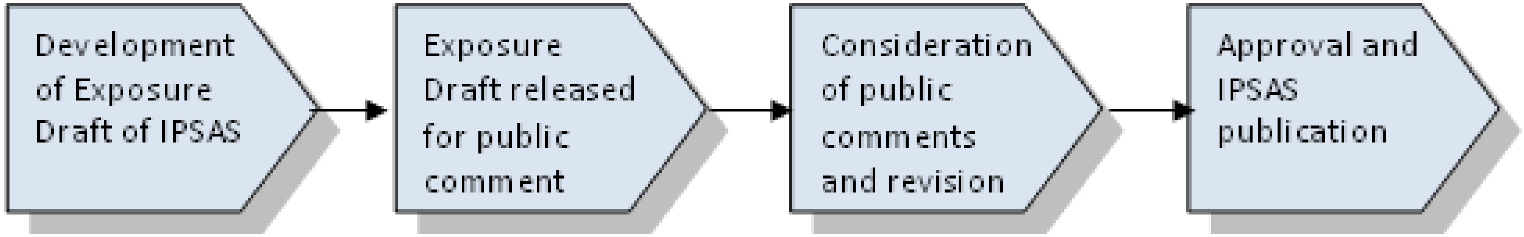
1. Introduction to IPSAS

International Public Sector Accounting Standards (IPSAS)

- Accounting standards which establish guidelines on how economic transactions and events should be reported in financial statements
- Currently 32 standards, with others in the pipeline
- Much more detailed than the previously applied United Nations System Accounting Standards (UNSAS)
- Do not directly impact the preparation and formulation of budgets

Preparation of IPSAS standards

- Specifically for the public sector, but largely based on International Financial Reporting Standards (IFRS)
- Prepared and adopted by an independent board (IPSASB), part of the International Federation of Accountants (IFAC)
- Transparent development process:



Application of IPSAS

- National Governments
- Current European Commission project (EPSAS)
- International organizations:
    - UN
    - NATO
    - OECD

2. IPSAS adoption in the UN system

The decision to adopt IPSAS (1)

- Since 1993, UN system organizations were applying UNSAS when preparing their financial statements
- However, concerns were raised (both internally and by external auditors) that this did not represent best practice
- UN Task Force on Accounting Standards was commissioned to review the possible adoption of external accounting standards
- Review concluded IPSAS represented international best practice

The decision to adopt IPSAS (2)

- November 2005: UN System High-Level Committee on Management (HLCM) recommend adoption of IPSAS by 2010
- April 2006: UN System Chief Executives Board for Coordination (CEB) endorse HLCM recommendation
- July 2006: UN General Assembly (resolution 60/283) approves the adoption of IPSAS by the United Nations
- September 2007: Assemblies of the Member States of WIPO approve the adoption of IPSAS by WIPO (A/43/5)

The expected benefits of IPSAS

- Improved **accountability** and **transparency** (greater detail and increased disclosure in financial statements)
- More **credibility** and **reliability** (independent standards, up to date with latest financial developments)
- **Harmonization**, **comparability** and **consistency** (within the UN System, with other international organizations, and over time)
- Improved **governance** – complete information on assets, liabilities, revenues and expense

IPSAS System-wide Project Accountability Structure

CEB
Chair: UN Secretary-General

HLCM
Chair: Mr Francis Gurry
Director General WIPO

FB Network

Task Force on Accounting Standards

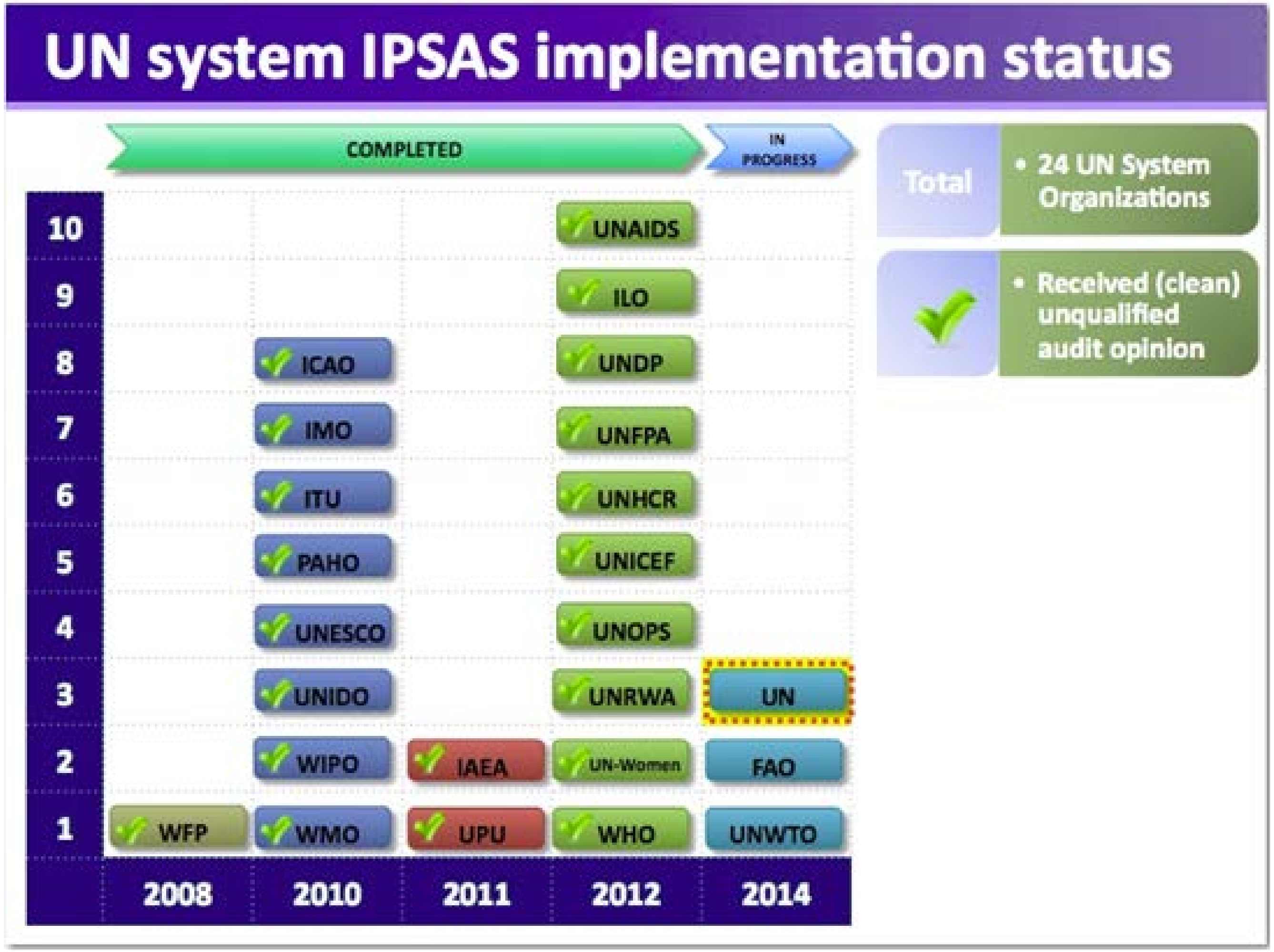
System-wide IPSAS Steering Committee

System-wide IPSAS Project Team

Task Force and IPSAS Project Team

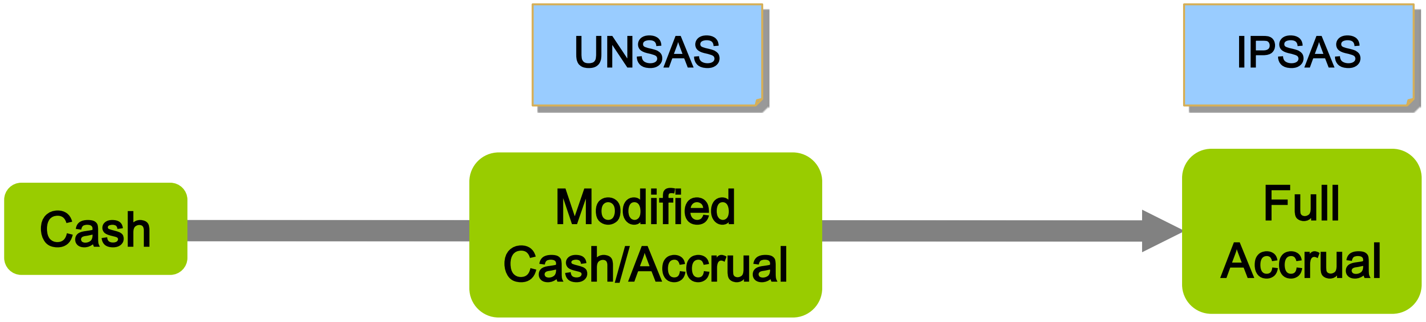
- 2 system-wide IPSAS meetings per year (one conference call, one face-to-face)
- Development of system-wide guidance papers
- Work towards harmonization of policies
- Observe the IPSASB and comment on exposure drafts and consultation papers
- Liaise with the Technical Group of the Panel of External Auditors

Implementation by UN System organizations



3. IPSAS accounting requirements

Change in the basis of accounting



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Full accrual basis of accounting

- Transactions and events recognized when they occur and in the financial statements of the periods to which they relate
- Expenses - goods/services are recognized in the financial statements when they are delivered
- Revenue – fee income recognized when earned as services are rendered
- All assets and liabilities are recognized

Revenue recognition at WIPO

- Fees for the processing of international applications (PCT, Trademark, Industrial Designs) are recognized as revenue when services are performed – i.e. at the date of publication
- Part of PCT fees is only recognized as revenue when the translation of patentability reports is completed
- Leads to significant deferred revenue liabilities in the financial statements

Employee benefits at WIPO

- The full liability for post-employment benefits is recognized (future payments for services already rendered)
- For the ASHI and repatriation benefits, the Organization has an obligation to provide agreed benefits to current and former employees
- Use actuarial calculations to make an estimate of the cost of benefits that employees have earned
- Leads to significant employee benefit liabilities in the financial statements

Land and buildings at WIPO

- Buildings in use as at 1/1/2010 were valued at deemed cost of construction less accumulated depreciation, and continue to be depreciated over useful lives
- New constructions since 1/1/2010 are capitalized at cost and are depreciated over useful lives
- New building site land is recognized at fair (market) value
- Madrid (Meyrin) building is classified as an investment property and held at fair value
- Acquired land surface rights (PCT building site) are treated as an intangible asset and amortized over rights period

Budget presentation in the financial statements

- Required to present a comparison of budgeted amounts and actual amounts on the budgetary basis (see statement V in the financial statements)
- Annual budgeted amounts required – biennial budget split into annual components
- As the budgetary basis (modified accrual basis) and the accounting basis (IPSAS full accrual basis) differ, a reconciliation of the two results for the year must be provided

4. IPSAS impacts at WIPO

IPSAS Opening balance adjustments

		(in millions of Swiss francs)
1)	Recognition of land	28.6
2)	Recognition of buildings	122.9
3)	Revaluation of investment property	0.9
4)	Recognition of intangible assets	28.2
5)	Recognition of equipment	3.8
6)	Recognition of inventory	2.4
7)	Deferral of unearned revenue	-132.2
8)	Recognition of PCT receivables	11.5
9)	Recognition of allowance for doubtful debts	-7.3
10)	Recognition of employee benefit liabilities	-78.8
	Net impact of conversion to IPSAS as at January 1, 2010	**-20.0**

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Other impacts

- Annual audit sign-off
- Update of accounting policies (Policy Guidance Manual)
- Internal processes – recording and tracking fixed assets, recognizing expenses
- IT system upgrades and developments (purchasing, e-procurement, asset management)
- Changes to financial regulations and rules
- Staff training and awareness
- Increased provision of information from HR, Buildings, Procurement, Publications …

5. WIPO 2013 financial statements

2013 Statement of Financial Performance

	2013	2012 (restated)
REVENUE		
Assessed contributions	17,714	17,591
Voluntary contributions	7,550	7,737
Publications revenue	405	630
Investment revenue	2,080	1,804
PCT system fees	257,462	251,954
Madrid system fees	55,401	51,598
Hague system fees	3,202	3,036
Other fees	8	4
Sub-total fees	316,073	306,592
Arbitration and Mediation	1,629	1,643
Other/miscellaneous revenue	6,160	4,997
TOTAL REVENUE	**351,611**	**340,994**
EXPENSES		
Personnel expenditure	214,457	212,824
Travel and fellowships	20,500	17,586
Contractual services	65,017	54,975
Operating expenses	24,488	24,789
Supplies and materials	3,265	2,652
Furniture and equipment	859	577
Depreciation, amortization and impairment	7,893	8,104
TOTAL EXPENSES	**336,479**	**321,507**
SURPLUS/(DEFICIT) FOR THE YEAR	**15,132**	**19,487**

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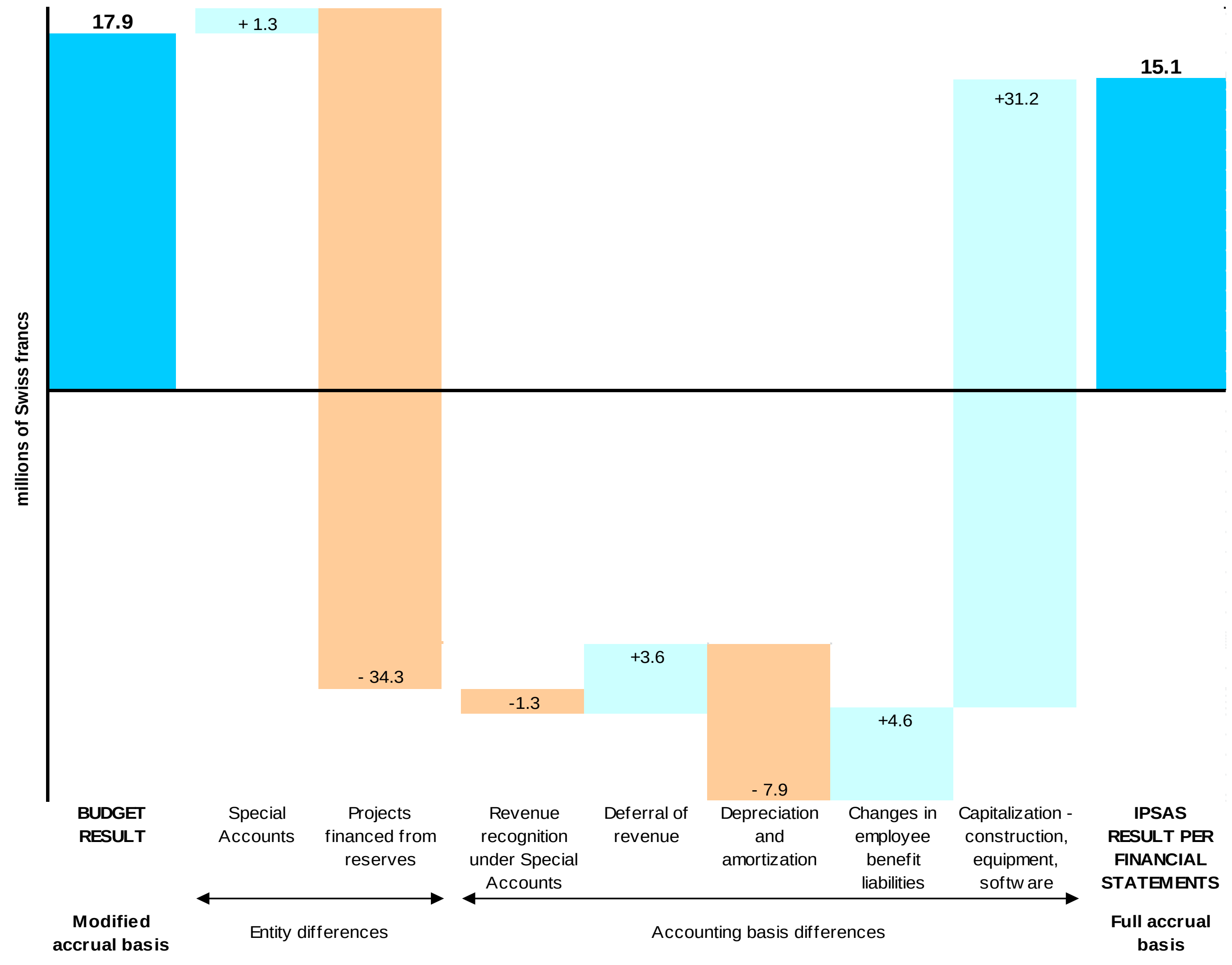
2013 Impact of IPSAS Adjustments



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2013 Statement of Financial Position

	December 31, 2013	December 31, 2012 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	409,916	408,117
Accounts receivable (non-exchange transactions)	2,677	1,430
Accounts receivable (exchange transactions)	79,749	74,711
Inventories	2,141	2,298
	494,483	486,556
Non-current assets		
Equipment	2,324	2,517
Investment property	4,785	4,785
Intangible Assets	29,161	27,394
Land and buildings	360,107	338,347
Accounts receivable (non-exchange transactions)	359	421
Other non-current assets	9,315	9,505
	406,051	382,969
TOTAL ASSETS	**900,534**	**869,525**
LIABILITIES		
Current liabilities		
Accounts payable	31,285	21,089
Employee benefits	17,538	17,672
Transfers payable	78,617	83,434
Advance receipts	229,101	221,100
Borrowings due within one year	5,258	5,258
Provisions	1,009	1,032
Other current liabilities	54,862	55,572
	417,670	405,157
Non-current liabilities		
Employee benefits	132,927	125,452
Borrowings due after one year	139,237	144,495
Advance receipts	1,881	734
	274,045	270,681
TOTAL LIABILITIES	**691,715**	**675,838**
Accumulated surplus	185,431	170,299
Working Capital Funds	8,342	8,342
Revaluation surplus	15,046	15,046
NET ASSETS	**208,819**	**193,687**

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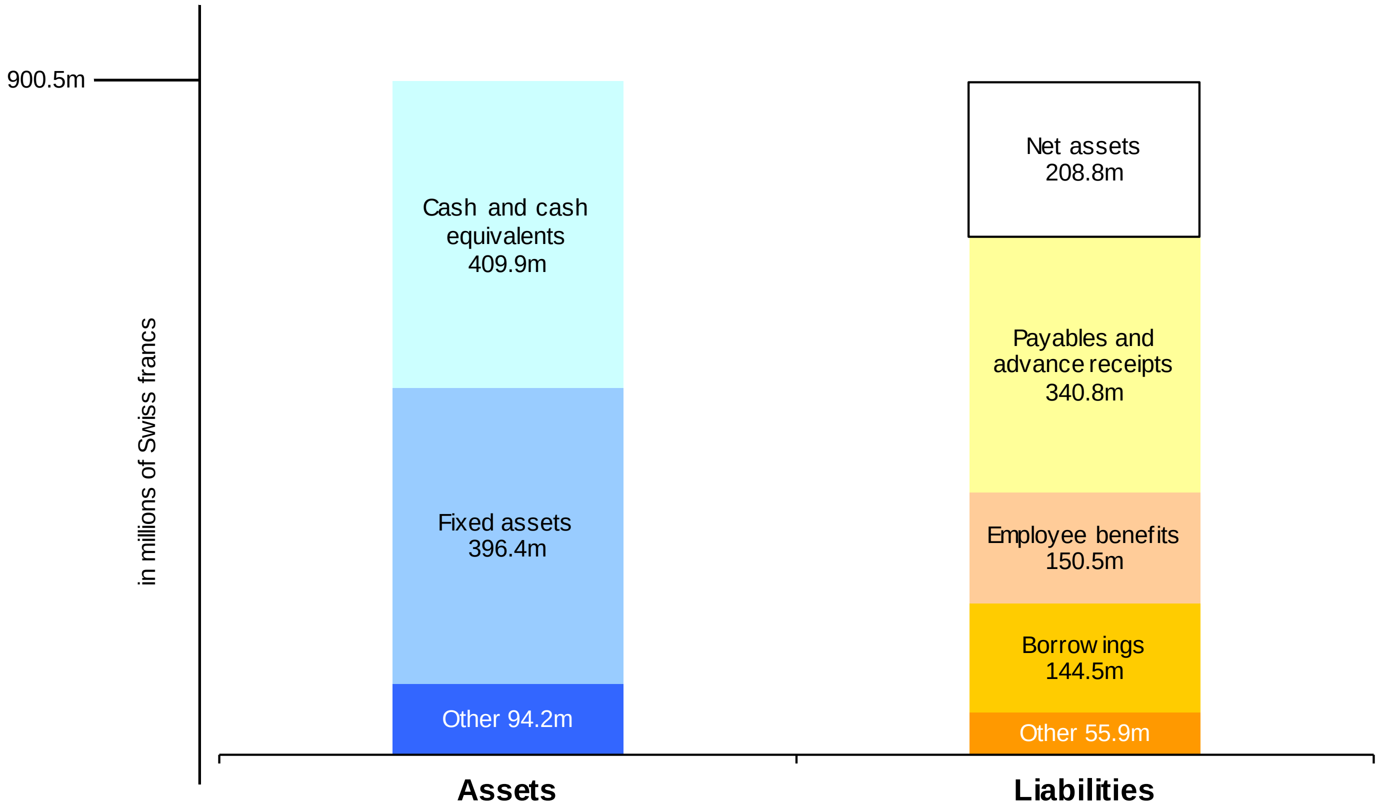
Summary - assets and liabilities 31/12/2013



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Change in accounting policy (1)

- In 2013 the accounting policy relating to the recognition of revenue from PCT was changed:
  - New model developed to calculate balances of debtors and deferred revenue;
  - Incorporating available data by individual application (including all dates throughout the application process);
  - Reference to the applicable foreign currency exchange rates;
  - Revenue from the fees for extra pages is deferred until publication for all formats of application;
  - Inclusion of all fee reductions, including developing country reductions.

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Change in accounting policy (2)

- Effect of change in accounting policy is recognized retrospectively, requiring restatement of 2011 and 2012 comparative numbers:

	As previously stated	Impact of restatement	Restated Total
	(in thousands of Swiss francs)		
Net Assets at December 31, 2011	**162,529**	**11,671**	**174,200**
Surplus for the year 2012	15,710	3,777	19,487
Net Assets at December 31, 2012	**178,239**	**15,448**	**193,687**

Cash and cash equivalents 31/12/2013

Cash and Cash Equivalents	December 31, 2013	December 31, 2012 (restated)
	(in thousands of Swiss francs)	
Total unrestricted cash	260,380	255,316
Total restricted cash - funds held on behalf of 3rd parties	133,479	139,006
Total restricted cash - Special Accounts	16,057	13,795
Total cash and cash equivalents	**409,916**	**408,117**

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Fixed assets 31/12/2013

Fixed Assets	December 31, 2013	December 31, 2012
	(in thousands of Swiss francs)	
Equipment	1,720	1,905
Furniture and furnishings	604	612
Total equipment	**2,324**	**2,517**
Madrid Union Building	4,785	4,785
Total investment property	**4,785**	**4,785**
Land surface rights	26,450	26,890
Separately acquired software	518	460
Software under development	2,193	44
Total intangible assets	**29,161**	**27,394**
Land	28,600	28,600
Work in progress	57,668	32,008
Occupied buildings	273,839	277,739
Total land and buildings	**360,107**	**338,347**
Total fixed assets	**396,377**	**373,043**

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Other assets 31/12/2013

Other Assets	**December 31, 2013**	**December 31, 2012 (restated)**
	(in thousands of Swiss francs)	
Accounts receivable (non-exchange transactions)	**3,036**	**1,851**
PCT debtors	62,399	52,729
Other debtors and prepayments	11,016	15,652
Advances	6,334	6,330
Accounts receivable (exchange transactions)	**79,749**	**74,711**
Other non-current assets	**9,315**	**9,505**
Total other assets	**92,100**	**86,067**

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Payables and advance receipts 31/12/2013

Payables and Advance Receipts	December 31, 2013	December 31, 2012 (restated)
	(in thousands of Swiss francs)	
Trade creditors - Accounts payable	24,856	16,198
Miscellaneous transitory liabilities	4,342	2,935
Other trade creditors	2,087	1,956
Total accounts payable	**31,285**	**21,089**
Madrid Union Fees	53,286	54,200
Madrid Union deposits	17,938	17,548
Madrid and Hague Union Repartition Fees	4,468	212
Other transfers payable	2,925	11,474
Total transfers payable	**78,617**	**83,434**
PCT revenue deferred	194,943	189,799
Non exchange revenue deferred	15,144	12,471
Other deferred revenue	5,692	4,708
Madrid Union deposits	12,613	10,539
Other advance receipts	2,590	4,317
Total advance receipts	**230,982**	**221,834**
Total payables and advance receipts	**340,884**	**326,357**

Employee benefit liabilities 31/12/2013

Employee Benefits	December 31, 2013 (in thousands of Swiss francs)	Percentage of Liability
Post-employment medical benefits	119,570	79.4%
Repatriation grant and travel	12,251	8.1%
Accumulated leave	12,176	8.1%
Closed pension fund	3,086	2.1%
Education grant	1,783	1.2%
Accrued overtime	755	0.5%
Home leave not taken	479	0.3%
Separation benefits - Special Accounts	240	0.2%
Performance rewards	125	0.1%
Total employment benefit liabilities	**150,465**	**100.0%**

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Movement in ASHI liability

Movement in ASHI Liability	(in thousands of Swiss francs)
Liability as at December 31, 2012	**110,937**
Current service cost	7,556
Interest cost	2,864
Benefits paid from plan	-2,341
Amortization of net (gain) / loss	554
Movement 2013	8,633
Liability as at December 31, 2013	**119,570**

- Projected liability from actuary going forward:
  - 2014: CHF 127.8m
  - 2015: CHF 135.4m
  - 2016: CHF 142.5m
  - 2017: CHF 149.0m

Borrowings 31/12/2013

Borrowings	**December 31, 2013**	**December 31, 2012**
	(in thousands of Swiss francs)	
FIPOI Loan Payable	22,295	23,653
BCG/BCV New Building Loan Payable	122,200	126,100
Total borrowings	**144,495**	**149,753**

Reserves and fund balance

	December 31, 2012 (restated)	Program and Budget Surplus for the Year (before IPSAS adjustments)	Special Accounts Surplus for the Year (before IPSAS adjustments)	Projects Financed from Reserves (before IPSAS adjustments)	IPSAS adjustments for the year	Transfer to Accumulated surpluses	December 31, 2013
			(in thousands of Swiss francs)				
Program and Budget surplus/(deficit) for the year	-	17,936	-	-	4,846	-22,782	-
Special Accounts surplus/(deficit) for the year	-	-	1,321	-	-1,321	-	-
Accumulated surpluses/(deficits)	170,299	-	-	-34,330	26,680	22,782	185,431
Working capital funds	8,342	-	-	-	-	-	8,342
Revaluation surplus	15,046	-		-	-	-	15,046
Net Assets	**193,687**	**17,936**	**1,321**	**-34,330**	**30,205**	**-**	**208,819**

New disclosures in 2013 financial statements

- Note 25 financial instruments – summary of risks (forex, credit, interest rate, liquidity) including sensitivity analysis
- Note 2 changes in accounting policies and estimates – details of impact of change in accounting policy, and explanation of presentation changes
- Financial statement discussion and analysis in line with IPSASB RPG2

6. IPSAS going forward

IPSAS issues/developments

Areas to be addressed/monitored going forward:

- IPSAS 28-30 Financial Instruments – accounting implications for any future hedging activity
- IFRS changes to accounting for employee benefits, removal of the corridor method
- Component accounting for the New Conference Hall
- Increasing guidance on narrative disclosures/reporting:
    - RPG 2: Financial Statement Discussion and Analysis
    - ED 54: Reporting Service Performance Information

■7. Q&A