INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

SUBMISSIONS RECEIVED

STAFF COLLATION OF RESPONSES TO CONCEPTUAL FRAMEWORK PHASE 2 CONSULTATION PAPER

List of Respondents:

Response #	Respondent Name	Country	Function
001	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
002	Accounting Standards Board	UK	Standard Setter/Standards Advisory Body
003	Federation of Professional Councils of Economic Sciences (FACPCE)	Argentina	Other
004	National Audit Office	Malta	Audit Office
005	Ministry of Finance Ontario	Canada	Preparer
006	Swedish National Financial Management Authority	Sweden	Standard Setter/Standards Advisory Body
007	New South Wales Treasury	Australia	Preparer
008	Provincial Government of Newfoundland and Labrador	Canada	Preparer
009	The Institute of Chartered Accountants of Pakistan (ICAP)	Pakistan	Member or Regional Body
010	Institut der Wirtshaftprufer (IDW)	Germany	Member or Regional Body
011	The Institute of Chartered Accountants of Scotland	UK	Member or Regional Body
012	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/Standards Advisory Body
013	Wales Audit Office	UK	Audit Office
014	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
015	Ernst &Young GmbH	Germany	Accountancy Firm
016	Danish Agency for Governmental Management	Denmark	Preparer
017	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
018	Joint Accounting Bodies	Australia	Member or Regional Body
019	United Nations Systems	Supranational	Preparer
020	Government of Canada	Canada	Preparer
021	New Zealand Institute of Chartered Accountants	New Zealand	Standard Setter/Standards Advisory Body
022	Dr. Joseph S. Maresca	USA	Academic
023	Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
024	The International Consortium on Governmental Financial Management	Supranational	Other

Response #	Respondent Name	Country	Function
	(ICGFM)		
025	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
026	Direction Générale des Finances Publiques	France	Preparer
027	Cour des Comptes	France	Audit Office
028	Office of the Auditor General	New Zealand	Audit Office
029	Province of British Columbia	Canada	Preparer
030	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
031	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
032	The Japanese Institute of Certified Public Accountants	Japan	Member or Regional Body
033	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
034	Government of Nova Scotia	Canada	Preparer
035	Comptroller's Division of Manitoba	Canada	Preparer

ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

22 June 2011

Ms Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

Phase 2: Consultation Paper

Attached is the Australasian Council of Auditors-General (ACAG) response to the consultation paper referred to above. We appreciate the extension of the deadline for comment by one week.

The views expressed in this submission represent those of all Australian members of ACAG.

Our response has been presented in two sections. The first outlines a conceptual model which we believe addresses the information needs of users. The second section then outlines specific responses to questions asked in the consultation paper.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

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Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

Phase 2: Consultation Paper

Section I: The Conceptual Model

Introduction

This conceptual model has been developed by ACAG to help address the high level questions raised by the IPSASB consultation papers relating to phases 2 and 3 of the conceptual framework project. These questions are:

- what are the elements of financial reporting? and
- how should these elements be recognised and measured?

In order to help answer these questions, the model considers which elements best meet users' information needs, and how these elements should be measured to provide the most relevant information. At this stage, the model does not address the format of financial statements which would best present this information. It is quite possible that in practice, Government budgets and other information could play a role in meeting some of these information needs.

Primary users and their information needs

ACAG considers public sector financial reports to have a wide range of primary users. These are taxpayers, lenders, parliamentarians, goods and service recipients and foreign investors.

Despite being diverse, these users share many common information needs, most of which can be categorised as follows:

Information needs about the past	Information needs about the future
How did the government spend money during the year?	Does the government have sufficient assets to meet its financial obligations?
Was the money spent economically, efficiently and effectively? What was the cost of services provided during the year and the amount and sources of cost recovery during the year?	Does the government have sufficient assets to sustain current service delivery requirements?
Was the expenditure as expected/promised?	What gaps exist between these resources and obligations?
What were the sources of inflows during the year?	Will future income sources be sufficient to fund any shortfall? (e.g. Will I have to pay more tax?)

Therefore, ACAG generally agrees with the information needs identified in the IPSASB exposure draft '*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities'*.

We would emphasise the point that, typically users information needs about the future are not well addressed in public sector financials statements at present. The need to address this deficiency is becoming increasingly urgent so that the scale and complexity of financial challenges and the implication of policy choices can be understood.

The ACAG conceptual model encompasses the consideration of the users information needs in respect of both the past and the future.

ACAG conceptual model

Accountability against budget
Financial reporting needs to include information which addresses the accountability of government spending. This would present both the sources and usage of economic resources during the reporting period and would provide users with valuable information about how effectively and efficiently the government discharged its responsibilities (e.g. how did actual inflows and outflows compare to budgeted expectations?). ACAG considers this accountability information a critical element of any financial reporting framework.

Sustainability and service delivery
To supplement this information, users also require information about the sustainability of service delivery, that is, the cost of future service delivery and the current and future resources available to assist the government in meeting those costs.

Totality of the model
To address these information needs, ACAG developed the model shown in the diagram outlined on page 4. This diagram attempts to identify which elements best meet these information needs.

Below is a brief summary of the concepts outlined in the following diagram:

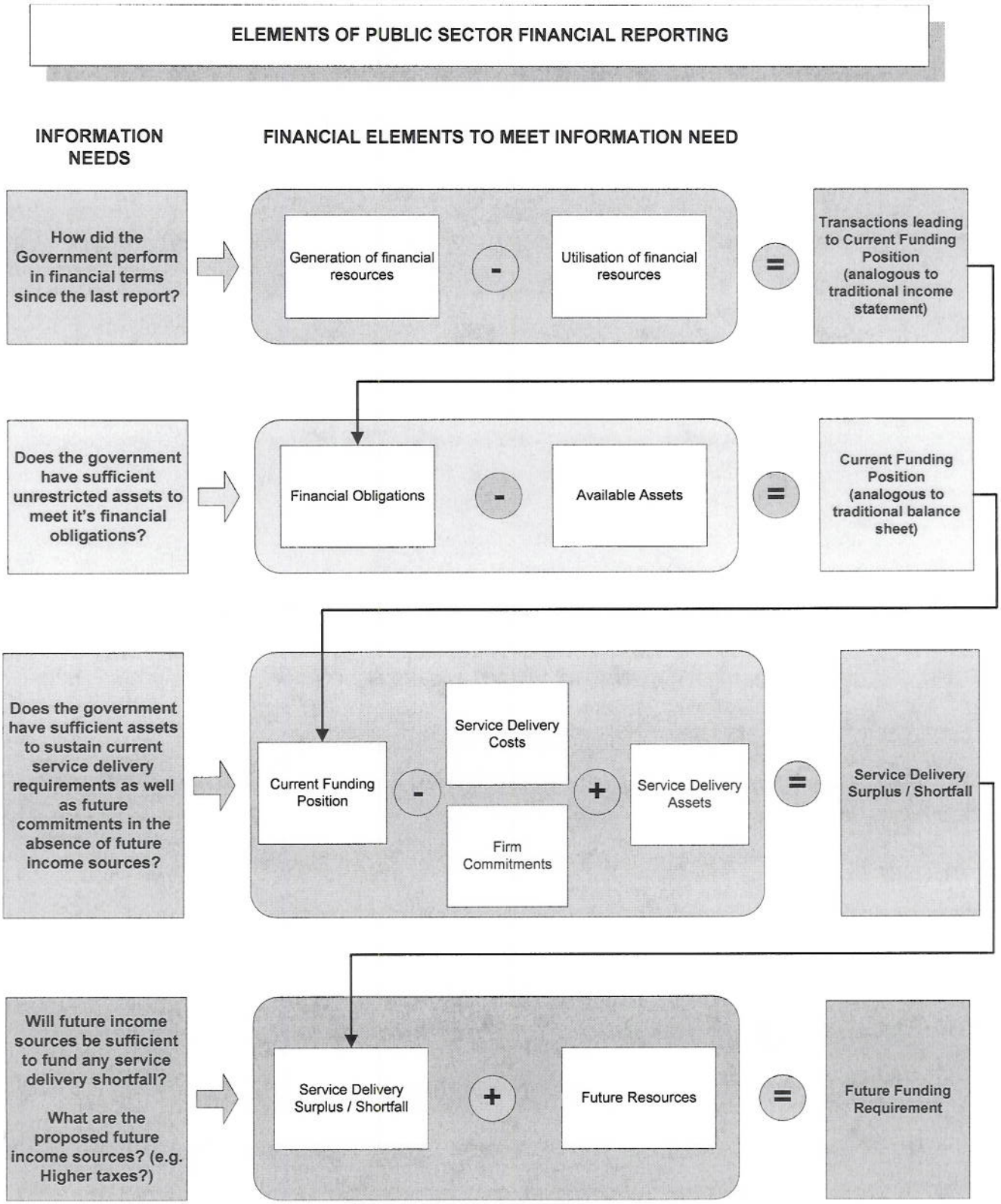
- Tier 1 The first line in the diagram focuses on the accountability aspect, to answer the question: what transactions have occurred in the recent reporting period that result in the government's financial position?

- Tier 2: The second line in the diagram focuses on a Government's liquidity. It attempts to answer the question: What unrestricted assets does the Government have at its disposal to meet its financial obligations? Unrestricted assets would include items such as cash, receivables and those assets not used specifically for service delivery (and therefore available for sale). The resulting figure labelled 'current funding position' will show any shortfall or surplus the Government has compared to its financial obligations, and would therefore act as a short term liquidity measure.

- Tier 3: The third line then incorporates the broader, service delivery obligations of Government. It includes the cost of maintaining existing service delivery needs plus any new policy commitments announced by Government. The Government would then subtract any service delivery assets it has at its disposal to meet these obligations. The resulting 'service delivery surplus/shortfall' shows users how much future revenue is required to maintain its current service delivery levels, after accounting for the Government's current asset base.

- Tier 4: The fourth line adds estimates of future income streams available to the Government based on the policies in place at the end of the financial period. Any remaining shortfall would be known as the 'future funding requirement': the amount of additional future inflows required to meet service delivery levels. The Government would then need to explain how it would address this gap (e.g. increased borrowings, taxes or reducing service delivery).

ACAG envisages that Tiers 3 and 4 would be presented in some form of maturity analysis. For example, the future service delivery costs and future income streams could be mapped over a four or five year period. This would allow users to see the future impacts of the Government's current policies and commitments.



Definitions

The following definitions help to describe the amounts which are captured in the above elements.

Financial Obligations	The requirement to sacrifice financial assets for which the Government has no other economic alternative but to settle.
Available Assets[1]	Scare resources which are: - financial assets i.e. cash or a right to receive cash from another entity; or - other resources available to be converted into cash because they are no longer used for service delivery.
Current Funding Position	Equals financial obligations less available assets. This represents the amount of additional inflows (if any) the Government needs to meet current financial obligations.
Service Delivery Costs	The future expected costs of: - maintaining current service delivery policies existing at reporting date; less - reductions due to public promises/commitments to reduce or abandon certain service delivery requirements. These costs should be estimated over the most reliable period based on information available.
Firm commitments	Future costs which: - are not financial obligations; - result from a public commitment; - impose additional service delivery requirements above current service delivery requirements; and - can be quantified.
Service delivery assets[1]	Present scarce resources which: - the Government can restrict access to the risk and rewards; - are not classified as a financial asset; and - are available to meet future service delivery needs.
Service delivery surplus / shortfall	Equals the current funding position **plus** service delivery assets **less** service delivery costs and firm commitments. This represents the amount of additional inflows (if any) the Government will need above existing resources to meet service delivery levels.
Future resources	Estimates of future funding sources based upon legislation and policies existing at reporting date.
Future funding requirement	Equals service delivery surplus/shortfall **plus** future resources. This represents the amount of additional inflows (if any) the Government will need to meet service delivery levels.
Public Commitment	A promise or policy announcement made to the public for which there would be significant social/political implications if not subsequently implemented.

[1] Unrestricted assets and service delivery assets would equate to the overall assets held by Government

CF-CP2
IFAC IPSASB Meeting

Measurement of the elements of financial reporting

To present the model in its entirety ACAG has opted to include measurement concepts in this response rather than separating into the IPSASB consultation paper '*Conceptual framework for general purpose financial reporting by public sector entities: measurement of assets and liabilities in financial statements*'.

The following table outlines the proposed measurement basis for each element of the model, including the reasoning behind each choice:

Element	Measurement Base	Explanation
Financial obligations	Lowest cost alternative	These represent obligations which the Government has no other economic alternative. Therefore, they would choose to settle these at the least cost.
Available assets	Fair value	These assets are held to meet financial obligations of Government (and are therefore cash or convertible into cash). These should therefore be carried at their market value.
Service delivery costs	Estimate (future service cost)	These costs will be estimates of future year service delivery based on current policies. It is likely these would be based on current year service delivery costs adjusted for assumptions such as growth rates and other expectations[2].
Firm commitments	Estimate (lowest cost alternative)	These costs will be estimates of future year commitments above current service delivery levels. Their value would be equal to the lowest cost at which the Government anticipates it can meet these policy commitments.
Service delivery assets	Depreciated replacement cost	These assets are not held for sale but instead are available to meet ongoing service delivery needs. If the asset was destroyed / impaired the Government would need to replace the asset to continue meeting its service delivery obligations.
Future resources	Estimate (future inflows)	This income would be estimated based on current policies (such as established tax rates). It is likely these would be based on current year income adjusted for assumptions such as growth rates.

[2] Disclosure of these assumptions would be a key requirement of financial reports

Agenda Item 4C
001

Benefits of the ACAG conceptual model

As acknowledged in the IPSASB exposure draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*, public sector entities have many characteristics which differentiate them from for-profit private sector entities. Involuntary contributions through taxpayers, non-commercial arrangements, societal obligations, restricted use assets and high levels of public accountability are all factors which create different user needs of public sector reporting. It is therefore understandable that a public sector conceptual framework has the potential to differ considerably from current private sector alternatives.

ACAG believes the model outlined above addresses a number of issues not addressed in conventional public sector reporting. These include (but are not limited to):

- recognising that Governments have a large number of service delivery obligations. For instance, the Government may be required to maintain a heritage asset into perpetuity. Current accounting would not reflect this ongoing obligation;

- accepting that assets may have service delivery restrictions attached to them. Current accounting often measures assets, such as parkland, at their fair value (highest and best use). However, the reality may be that service delivery restrictions would prevent the Government ever selling the asset. This model accounts for service delivery obligations and clearly identifies those assets restricted to meet these service delivery needs;

- clearly distinguishing between financial and service delivery obligations of Government. This allows users to quickly identify liquidity information, as well as future service delivery commitments of the Government.

- providing more information about future implications of policy decisions. Current financial statements are driven by historical information and may not assist users in understanding the future impact and sustainability of the Government's policies.

Overall, the ACAG conceptual model provides users with information for both accountability and decision making purposes. Lenders and investors would be provided information about current liquidity and projected future funding shortfalls. Other primary users such as taxpayers would be provided with information highlighting the impact of current policy decisions on the Government's current and future resources.

Section II: Answers to specific matters for comment

In addition to submitting the model outlined in Section I for your consideration, ACAG also provides the following responses to specific matters for comment.

ASSETS

Specific Matter for Comment 1: Asset Definition

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
- **(i) Service potential;**
- **(ii) Net cash inflows; and**
- **(iii) Unconditional rights to receive resources?**

ACAG supports the definition of an asset including all of the above benefits. As identified in the ACAG conceptual model, assets can contribute to a Government's operations in a variety of forms. Some assets may be held for service delivery purposes and meet future service potential needs. Other assets may be available to satisfy the entities' liabilities or be available to purchase further service delivery assets. What is important, from ACAG's view, is to clearly distinguish between those assets that are held to provide cash inflows, and those that are dedicated to service delivery.

(b) What term should be used in the definition of an asset:
- **(i) Economic benefits and service potential; or**
- **(ii) Economic benefits?**

ACAG agrees with the argument that Government assets are often deployed to provide services rather than obtain economic benefits (as outlined in Paragraph 2.24).

Therefore, ACAG supports option (i) with service potential being separately identified.

Specific Matter for Comment 2: Asset ownership

(a) Which approach do you believe should be used to associate an asset with a specific entity:
- **(i) Control;**
- **(ii) Risks and rewards; or**
- **(iii) Access to rights, including the right to restrict or deny others' access to rights?**

ACAG prefers a risks and rewards approach for identifying an entity's assets. The notion of control often results in entities recognising assets due to physical control, even though the majority of risks and rewards have been assigned to another party.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

ACAG believes that an entity's ability to deny, restrict or regulate access to benefits is an essential characteristic of an asset.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

No.

Specific Matter for Comment 3: Past events

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

ACAG considers that a past event should not limit the recognition of an asset. Instead, the more essential consideration is whether it provides a present resource available to the entity to meet its future obligations or contribute to the entity's service potential.

Specific Matter for Comment 4: Inherent rights

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

ACAG agrees with the position outlined in paragraph 2.54 – 2.56 and considers that rights and powers only meet the definition of an asset where the powers are exercised.

ACAG agrees that these rights and powers are only potential assets until they are exercised by Government.

Specific Matter for Comment 5: Other matters

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

No.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

No.

LIABILITIES

Specific Matter for Comment 6: Liability definition

(a) Should the definition of a liability cover all of the following types of obligations?
- **(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.**
- **(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).**
- **(iii) Performance obligations.**
- **(iv) Obligations to provide access to or forego future resources.**

ACAG agrees with the definition of a liability including elements (i), (ii) and (iii).

ACAG does not support the inclusion of (iv) and agrees with the rights approach discussed in paragraph 3.20.

Public Private Partnerships (PPPs)
Consistent with the views outlined in 2(a), ACAG supports a risk and rewards approach to asset recognition. In the case of PPPs, the asset(s) constructed represent a bundle of different rights which each party obtains a portion of those rights under the arrangement. Inclusion of (iv) in the liability definition would result in Government recognising the entire PPP asset and a corresponding liability to make it available to the private enterprise for the duration of the arrangement. However, under a risk and rewards approach, the Government entity would only recognise an asset equal to the benefits it retains, such as the residual value of the assets constructed under the PPP. The latter accounting treatment more closely reflects the economic reality of the transaction as the Government only recognises an amount equal to the benefits it obtains in the arrangement.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

ACAG does not consider settlement date to be an essential characteristic of a liability. Governments will often be subject to obligations for which they have little alternative but to settle, such as remediation work after a natural disaster (where strong social expectations exist). In these cases, a specific settlement date may not be known, however, at reporting date the Government is still liable to outlay economic resources to remediate any damage caused.

Specific Matter for Comment 7: Liability ownership

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

ACAG does not consider the ability to identify specific parties as an essential characteristic.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Yes. A liability should only exist if Government has no other realistic alternative. If a realistic alternative does exist which results in lower or nil cost, then it would be expected such an option would be taken.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Unlike commercial enterprises, public sector entities are often subject to strong social expectations (e.g. through policy and program announcements) that often leave the Government with no real alternative. Therefore, ACAG believes liabilities should not be limited to legal obligations but should extend to enforceable contractual, constructive, equitable obligations and all other constructive and equitable obligations for which the entity cannot realistically withdraw (Approach (c)).

Specific Matter for Comment 8: Present obligation

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Consistent with our response at 2(c), ACAG does not consider a past event as an essential characteristic of a liability. Instead, the more essential characteristic is that a present obligation exists on the entity.

Specific Matter for Comment 9: Obligations

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an intermediate event that is more appropriate?

ACAG supports that an obligation exists only where there are enforceable claims, either arising from contractual, constructive or moral grounds (paragraph 3.50).

For example, the Government would become liable for an employees retirement benefits over the period the employee provides services, as once the service is performed, the employee may claim payment on contractual and/or moral grounds. Until the employee has performed the service, no expectation to settle exists for the Government entity.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

Yes, however as noted above ACAG considers that enforceability can rise from contractual, constructive or moral obligations.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

ACAG considers that sovereign power should not be considered in determining enforceability. Instead, the framework in place at reporting date should be the basis for determining the enforceability of claims.

Specific Matter for Comment 10: Other matters

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

ACAG recommends that the Conceptual Framework provide additional emphasis on the significance of materiality based on the context and nature of an item because this is likely to be of particular importance for public sector entities.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

No.

REVENUES AND EXPENDITURE

Specific Matter for Comment 11: Profit or loss vs Balance sheet approach

(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

ACAG supports a revenue and expense-led approach. This is because traditional financial reports are driven through the use of historical information and act as an accountability mechanism for users. This is mainly achieved through the statement of financial performance which can be used to compare actual performance of Government against budgeted expectations.

Within this context, a revenue and expense-led approach ensures the focus remains on this statement. It allows specific period inflows to be linked to outflows and highlight the surplus or shortfall which relates to current period service delivery. This approach also ensures any amounts received or spent on future service delivery is deferred and recognised in those years.

Therefore, ACAG supports inflows and outflows being defined as "applicable to" the current period.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Refer above.

Specific Matter for Comment 12: Definitions

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Where transactions with residual interests can be appropriately defined, ACAG would support investments in the operating capacity of Government being excluded from revenue and expenses.

However, in the absence of a sound conceptual base for allocating residual transactions between financing (e.g. contributions to increase the operating capacity of Government) and operating (e.g. provision of services to Government), ACAG supports comments at paragraph 4.46 which note these transactions should be treated as revenue and expenses. If this was to be adopted users may still benefit from classification that separates residual transactions between non-reciprocal and normal exchange transactions. .

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

ACAG does not believe the definitions should be limited to specific types of activities. Instead, public sector entities should provide sufficient information within their financial statements to differentiate their various sources of revenue and expenditure.

Specific Matter for Comment 13: Other matters

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

No.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

No.

Specific Matter for Comment 14: Deferrals

(a) Do deferrals need to be identified on the statement of financial position in some way?

ACAG supports deferrals being identified separately.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
- **(i) Defined as separate elements;**
- **(ii) Included as sub-components of assets and liabilities; or**
- **(iii) Included as sub-components of net assets/net liabilities.**

Deferred inflows and outflows should be disclosed as separate elements in the statement of financial position. This would provide users with valuable information about the Government's resources/obligations which relate to future years service delivery.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

ACAG supports the definitions as set out in paragraph 5.8.

EQUITY

Specific Matter for Comment 15: Net assets

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

ACAG considers net assets/net liabilities to represent a residual interest as discussed in paragraphs 5.18 to 5.21.

(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?

Ownership interests should be clearly defined to ensure outside claims on public sector net assets are disclosed. This would ensure users are aware of any of the Government's net assets which may be attributable to outside third parties such as private enterprise.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

No.

Specific Matter for Comment 16: Equity Definition

(a) Should transactions with residual/equity interests be defined as separate elements?

As noted in the response to question 15(b) above, ACAG supports equity interests being separately defined.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

ACAG considers the definition should focus on equity interests that are external to the public sector entity. Therefore, essential elements would be:

- the contribution / distribution relates to an external party; and
- contributions entitle the external party to future economic benefits and/or distribution of any asset excess on the entity being dissolved.

OTHER MATTERS

Specific Matter for Comment 17: Recognition criteria

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

ACAG believes that a sound conceptual framework is critical for appropriate element recognition. Provided this is in place, entities should be capable of making neutral, principles based judgements when deciding whether an element is recognised. Bright line tests such as 'probable' or 'more likely than not' often introduce recognition points which cannot be rationally or conceptually supported and often small deviations in assumptions can lead to a transaction being included or excluded from the financial reports.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be?

Refer comments in (a) above.

If not, what threshold is reasonable for asset recognition and for liability recognition?

Refer comments in (a) above.

Specific Matter for Comment 18: Derecognition

Do you support the use of the same criteria for derecognition as for initial recognition?

ACAG agrees with paragraph 6.25 and supports uniform criteria for recognition and derecognition.

Specific Matter for Comment 19: Recognition criteria

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Ideally, ACAG believes that recognition criteria could be incorporated into element definitions. This would limit the location and extent of further rules and guidance as seen in many current accounting frameworks.



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Stephenie Fox
Technical Director
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277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

25 June 2011

Dear Stephenie

Re Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

1. The Accounting Standards Board (ASB) welcomes the opportunity to respond to the above Consultation Paper (CP). We would like to highlight the following points.

2. As stated in other comments letters to the IPSASB Conceptual Framework project, we think it would be unfortunate for the IPSASB and IASB frameworks to diverge markedly without due justification and consider that the revenue and expenses approach would be a radical departure from the Conceptual Frameworks of other standard-setters. Therefore, we support the assets and liability approach. However, we acknowledge the importance of clear reporting of income and expenses particularly in relation to the delivery of services. In our view, however, this can be accommodated within an asset and liabilities framework with, if necessary, explained by narrative or other disclosure.

3. We recommend that the IPSASB consider defining an asset in terms of 'rights or other access to receive future economic benefits' rather than for example 'resources controlled by the entity'. This may affect analysis of cases where more than one entity has rights to use a single resource and can more easily be applied where the asset is itself, simply a right for example, where an entity holds an option.

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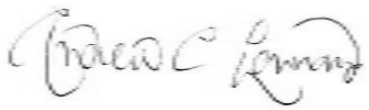
4. We recommend that the IPSASB reconsider using the terms revenue and expenses as the terms for flows of assets and liabilities as confusion may arise as to whether they include 'one off' items and suggest the terms 'gains or losses'

5. We consider it essential that the framework should set out robust recognition criteria to avoid financial statements being cluttered with items of dubious relevance. There must be adequate evidence that an element exists before it is recognised.

6. The above points are enlarged upon in our responses to the Specific Matters for Comment set out in the Appendix.

7. If it would be helpful to discuss these comments, please contact Joanna Spencer j.spencer@frc-asb.org.uk or me.

Yours sincerely



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IPSASB Consultation Paper on Elements and Recognition

Specific Matters for Comment ('SMCs')

Specific Matter for Comment 1:

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:

(i) Service potential;

(ii) Net cash inflows; and

(iii) Unconditional rights to receive resources?

ASB response

The definition of an asset should be broad enough to include items that provide any of the above types of economic benefits. However, it is not these benefits themselves that form the present asset that is reported in the GPFS, and not all prospects of future benefits are assets at the reporting date. As noted in our response to SMC 2, in our view an asset should be defined in terms of rights to future economic benefits.

It is important that it is clear that 'net cash inflows' should include a saving of future cash outflows. This is particularly important where assets are employed in the provision of services for which no fee, or a fee less than cost is charged.

(b) What term should be used in the definition of an asset:

(i) Economic benefits and service potential; or

(ii) Economic benefits?

ASB response

As stated above, it is important that the definition of an asset should include items that provide service potential as one type of economic benefit. It is questionable, however, whether it is necessary or appropriate that the definition specifically refer to 'service potential'. We do not believe that the existence of assets that provide only service potential is a distinguishing feature of the public sector: commercial entities often hold assets that do not directly contribute to the receipt of cash inflows.

Specific Matter for Comment 2

(a) Which approach do you believe should be used to associate an asset with a specific entity:

(i) Control;

(ii) Risks and rewards; or

(iii) Access to rights, including the right to restrict or deny others' access to rights?

ASB response

The ASB's Statement of Principles for Financial Reporting *defines assets as 'rights or other access to future economic benefits controlled by an entity as a result of past transactions or events'. Our experience has shown that the focus on rights, rather than resources, is valuable. A definition in terms of 'resources controlled by an entity' can create the misleading impression that once a resource has been identified, the accounting issue is to determine the entity of which that resource is an asset. This sort of confusion is evidenced by the example in paragraph 2.36 of the Consultation Paper, It is correct to observe that the fiber optic cable is not the entity's asset, but the entity may have a right to use the cable, which is an asset. (We note that this discusses the use of the notion of 'right' to establish a link to the asset; in contrast, we are suggesting that it is the right itself that is the asset). Confusions of this kind have arisen in the course of IASB's work on leasing and on Service Concession Arrangements.*

A definition based on the notion of a resource can also be confusing where the potential asset is, itself, simply a right, for example, where an entity holds an option.

We do however recognise that the approaches proposed do overlap and that control and rights are directly linked to the risks and rewards associated with having an asset.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

ASB response

In our view, such an enforceable claim or ability would be a right or other access to economic benefits, and the entity would therefore have an asset.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

ASB response

In our view it is not helpful to consider as separate issues (i) what is the essence of an asset and (ii) what are the links between an entity and a potential asset. Consistently with the views expressed above, we suggest that if the entity has a right to future economic benefits, that right is an asset.

Specific Matter for Comment 3

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

ASB response

We understand the argument that, if the definition refers to a "present resource" it is unnecessary to refer a past event. However, we believe that the reference to 'a past event' is helpful. It emphasises that, for an asset to have come into existence there must have been a past transaction or event, and underpins the role of the financial statements in providing an account of historical transactions. An asset may be seen as the link between the past (when it came into existence) and the future (when it will yield economic benefits). Reference to 'a past event' is also helpful in distinguishing mere current expectations of future benefits from rights that have been purchased or otherwise acquired.

Specific Matter for Comment 4

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

ASB response

We do not believe that the power to tax and levy fees should be reported as an asset. In our view, it is only the legislature (not the government) that has the right to require taxes and fees, therefore a government should report an asset in respect of tax or fee only when an event that gives rise to a right to receive tax under current legislation takes place.

Specific Matter for Comment 5

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

ASB response

We have not identified any further issues.

Specific Matter for Comment 6

(a) Should the definition of a liability cover all of the following types of obligations?

  (i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.

  (ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).

  (iii) Performance obligations.

  (iv) Obligations to provide access to or forego future resources.

ASB response

Any of the above kinds of obligations should be within the definition of a liability.

We have the following additional comments on this section of the Consultation Paper (paragraphs 3.6-3.20).

- *We do not agree with the view expressed in paragraph 3.8 that a liability may exist where it is necessary to expend resources to 'discharge an organizational need'. Such expenditure is incurred to enhance the efficiency of future operations, and not to discharge a liability. (Of course, if an entity's assets are not fit for purpose they may be impaired, but that does not justify the recognition of a liability.)*
- *We agree that unconditional obligations include 'stand ready' obligations whereby an entity is required to provide resources if a future uncertain event occurs. We do not, however, understand how these differ from the conditional obligations addressed in paragraph 3.12.*
- *We do not believe that executory contracts usually give rise to an unconditional obligation to pay the contractually agreed amount. Under such contracts the obligation is to exchange, and there is a liability only if, and to the extent that, the exchange is likely to be unfavourable (in other words, the contract is onerous). In many cases, there is not even an obligation to exchange: more precisely the obligation is EITHER to exchange OR to compensate the other party for any losses that it will suffer (having taken reasonable steps to mitigate those losses) as a result of the entity's failure to exchange.*
- *Consistently with our view on the definition of assets, we believe there is considerable conceptual merit in the accounting described for a service concession arrangement in paragraph 3.20, i.e. the entity recognises that the effect of the transaction is to convey a part of its assets to the private sector entity. We note that this is one of the approaches to lessor accounting proposed in the IASB's recent exposure draft on leases.*

(b) Is the requirement for a settlement date an essential characteristic of a liability?

ASB response

A settlement date is not an essential characteristic of a liability. Uncertainty about the time at which an obligation may be settled, or the ability of the entity to defer settlement, may affect the measurement of a liability, but not its existence.

Specific Matter for Comment 7

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

ASB response

We agree that the definition of a liability should make clear that the entity cannot both be both the party that is obligated and the party to which settlement will be made. Therefore, there is always an external party to whom a liability is owed. However, it is not always the case that a <u>specific</u> external party can be identified. The point is best addressed in supplementary guidance rather than in the definition of a liability.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

ASB response

Yes.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

ASB response

In our view, the definition of a liability should include all obligations where another party has the right to require settlement. Whilst, in most cases this will be a legal right, it would be too restrictive to require that in all cases the other party should have the ability to enforce settlement at law. Whether a liability should be reported or not should reflect the economic substance: the opinion of lawyers on the likely consequences of obscure precedents of the law of equity should not be required, except perhaps in exceptional cases. If legal enforceability were to be required, it would raise questions about cases where the creditor, although legally entitled to settlement, would be unlikely to incur the cost of legal action to enforce its claim.

But the definition should not encompass future outgoings where the other party has no right to require payment. Although the phrase 'valid expectation' has become established, we believe that it should be clarified. It is not sufficient that the other party may have an expectation that is rational and likely to be fulfilled (and so could be described as 'valid'): it is also necessary that the other party is entitled to rely on settlement.

We do not support the second approach in paragraph 3.28 as we can see no conceptual basis for distinguishing between obligations that result from exchange and non-exchange transactions. However, we acknowledge that the exchange itself may provide evidence of the existence of an obligation.

Specific Matter for Comment 8

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

ASB response

The considerations in respect of liabilities are parallel to those that arise in the case of assets, which we have discussed above in connection with SMC 3.

We understand the argument that, if the definition refers to a "present obligation" it is unnecessary to refer a past event. However, we believe that the reference to 'a past event' is helpful. It emphasises that, for a liability to have come into existence there must have been a past transaction or event, and underpins the role of the financial statements in providing an account of historical transactions. A liability may be seen as the link between the past (when it came into existence) and the future (when it will require an outflow of economic benefits). Reference to 'a past event' is also helpful in distinguishing mere current expectations of future outflows from obligations stemming from past transactions and events.

Specific Matter for Comment 9

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

ASB response

In our view, a liability for financial reporting purposes only exists where another party has an enforceable claim.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

ASB response

Yes, but not necessarily <u>legal</u> enforceability. See our answer to SMC 7, above.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Where a sovereign government has a legal obligation, the possibility that it might use its sovereign power to 'walk away' does not justify omitting that liability. A liability should continue to be reported until the legislature passes new legislation that relieves the administration of the liability.

Specific Matter for Comment 10

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

ASB response

We have not identified any further issues.

Specific Matter for Comment 11

(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

ASB response

We believe that the elements of financial performance should be defined in terms of changes in net assets (excluding transactions with equity interests), and not in terms of inflows and outflows that are "applicable to" the current period.

Adoption of a revenue and expense-led view would be a radical departure from the Conceptual Frameworks adopted by other standard-setters. Therefore, it should, in our view, only be contemplated if the case to change that approach is compelling enough, that is, there are clear deficiencies in the asset and liability-led approach that cannot be resolved by any other means.

We agree that information on financial performance is of great significance, and developing the most useful means of conveying that information is one of the most important challenges for accounting standard-setters.

The discussion in the Consultation Paper envisages 'financial performance' being encapsulated in a single number (for example, in paragraph 4.4). While it may be the case that in practice attention is excessively focussed on 'the bottom line' we question whether a single number can ever convey significant information about a large and diverse organisation. Rather than attempt to provide a better 'bottom line' in our view it is likely to be more productive to secure useful information on relevant components of financial performance. In addition, financial reports need to be supplemented by narrative reports drawing attention to significant features of financial performance (such as expenses that will provide benefits in the future but do not result in recognised assets) and also to non-financial measures of performance.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

ASB response

In addition to the points made in connection with our response to (a) above, we find particularly cogent the arguments in paragraph 4.25: the asset and liability-led view is relatively robust, free from subjectivity and avoids the considerable difficulties of defining "applicability to the current period".

Specific Matter for Comment 12

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

ASB response

Whilst we agree that residual/equity interests should be excluded from revenue and expenses, we are of the view that there are a number of issues in relation to residual/equity interests that need to be further explored.

For example, some public sector bodies may receive funding from another part of government in order to support their activities and, perhaps less commonly, pay over surplus funds to a higher level of government. It is important that such transactions are excluded from the definitions of revenues and expenses. The exclusion should only be for transactions with such parties in their capacity as owners.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

ASB response

The terminology adopted in the Consultation Paper for the elements that relate to flows, that is 'revenue' and 'expenses' is, in our view, likely to lead to considerable confusion, because those terms are often used in a more restricted sense. 'Revenue', for example, is frequently used to refer to inflows from ordinary activities—the amount reported in the private sector as 'turnover' or 'sales'. Endless arguments arise about, for example, whether the sale of a non-operating asset for more than its book value (or the settlement of a dispute for less than that previously recognised) give rise to 'revenue'—even where the parties to the discussion are agreed that the credit should be recognised in the statement of financial performance, but in a way that distinguishes from normal operations.

The ASB's Statement of Principles for Financial Reporting *avoids this by using the terms 'gains' and 'losses' to describe the elements that relate to financial reporting. Supplementary discussion might add that 'revenues' are one kind of gain and 'expenses' are one kind of loss.*

We strongly recommend that the IPSASB considers adopting general terms such as 'gains' and 'losses' for these elements. We recognise that this would be a departure from the usage in IASB's current Conceptual Framework, but would hope that IASB will make a similar change when it addresses the elements in its work on its Conceptual Framework.

Specific Matter for Comment 13

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

ASB response

We have not identified any further issues.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

ASB response

We have not identified any further issues.

Specific Matter for Comment 14

(a) Do deferrals need to be identified on the statement of financial position in some way?

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:

(i) Defined as separate elements;

(ii) Included as sub-components of assets and liabilities; or

(iii) Included as sub-components of net assets/net liabilities.

ASB response

As stated in our answer to SMC 11, we oppose the inclusion of deferrals in the statement of financial position. If, however, they are to be included it is essential that they are clearly and separately identified. This would require that they are <u>both</u> defined as separate elements and separately presented from net assets/net liabilities,

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

ASB Response

No. The definitions need to specify what is meant by "applicable to the reporting period".

Specific Matter for Comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

ASB response

In principle, we consider net assets/net liabilities to be simply a residual amount. In many cases there is little information content in this amount. However, as noted in our response to SMC 12, it is important that changes in this amount due to transactions with 'owners' are reported transparently.

(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

ASB response

Where such interests exist:

(i) they will not usually meet the definition of a liability;

(ii) they should be clearly segregated from other parts of the residual interest;

(iii) the surplus or deficit relating to such interests should be transparent.

However, minority or noncontrolling interests in a GBE arise only rarely. We suggest that this issue should be dealt with in the development of accounting standards rather than in the Conceptual Framework.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

ASB response

We have not identified any further issues.

Specific Matter for Comment 16

(a) Should transactions with residual/equity interests be defined as separate elements?

ASB response

Yes. Please refer to our answer to SMC 12 (a).

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

ASB response

As noted in our answer to SMC 12 (a), only transactions that are with parties that are 'owners' in their capacity as owners should be within the definition.

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

ASB response

We are generally supportive of a neutral judgement approach for recognition criteria.

In our view, robust recognition principles are an essential element of a satisfactory and workable framework that should ensure financial statements are not cluttered with information about assets and liabilities that are of doubtful relevance (such as some intangible assets currently recognised on a business combination). The recognition criteria should require that assets and liabilities are recognised only where there is adequate evidence of their existence, and a measurement basis that can be expected to be sufficiently relevant, reliable and verifiable can be identified.

Relevance is not mentioned in the context of recognition in the IASB's Framework, but FASB Concepts Statement #5 gives as one of its recognition criteria 'It has a relevant attribute measurable with sufficient reliability'. We prefer the FASB's approach, as we do not consider an asset should be recognised if the only practicable measurement attribute is devoid of relevance.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

We do not consider that it would be appropriate for the Framework to specify specific thresholds for the recognition of assets and liabilities in financial statements. The degree of uncertainty that may be tolerated might not necessarily be the same in all cases due to the need to balance reliability and relevance. For example, it might be considered that the relevance of pension obligations is sufficiently high that they should be recognised, notwithstanding a degree of variability in their measurement that would preclude recognition in another case.

In our view, the application of the recognition criteria is best dealt with in the development of accounting standards or, in the absence of an accounting standard, by the professional judgement of the preparer.

As noted in the Phase 1 ED, caution needs to be exercised in dealing with uncertainty (paragraph 3.15). We therefore would expect that standards might in particular cases provide stricter recognition requirements for assets than for liabilities.

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?

ASB response

We believe the most helpful approach is start with the presumption that a recognised asset or liability should continue to be recognised until a new transaction or event suggests that it should be derecognised (for example because it has been disposed of or settled) or its measurement should be changed (for example, as a result of changing prices).

We acknowledge that a possible consequence of this approach is that an entity may continue to recognise items although similar rights and obligations could have been acquired in a different way without giving rise to assets and liabilities. This arguably impairs comparability. However, the advantage is that it permits a fuller and more understandable presentation of the effect of transactions and events of the year on the entity's assets and liabilities. It is also consistent with the objective of accountability that an entity should continue to account for assets and liabilities, unless it is clear that they have been disposed of or settled.

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

ASB response

In our view, it is important that the recognition criteria should be separate and distinct from the definitions of an element. The distinction is helpful in clarifying the rationale for including or excluding an item from the financial statements.

For example, an item may not be recognised because there is no appropriate measurement basis but another similar item is newly-acquired and recognised at cost. If the definition of an asset contains recognition criteria, the first item would be an asset but not the second. This would be confusing.

Opinions of the Federation of Professional Councils of Economic Sciences (FACPCE)

Phase 2 --- The definition and recognition of the elements of financial statements;

Specific matter for comment 1:
(a) Should the definition of a asset cover all the following types of benefits- those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?
(b) What term should be used in the definition of an asset:
(i) Economic benefits and the service potential; or
(ii) Economic benefits?

Paragraph No.	Paragraph Reference	Opinion
(a)	Should the definition of an asset cover all the following types of benefits- those in the form of: (i) Service potential; (ii) Net cash inflows; and (iii) Unconditional rights to receive resources?	The definition of an asset should cover all the concepts expressed in points (i), (ii) and (iii). Regarding point (iii), *Unconditional rights to receive resources,* **if and only if they are specified in the contract**. For example, privatizations where the contract states an investment program, it should be considered a debt for the privatized company and an asset for the appropriate Government Sector.
2.13	The substance of an asset may be identified in the terms of the type of economic benefits provided by a resource. Three potential types of benefits are: (a) Service potential; (b) Net cash inflows (or reduced net cash outflows); and (c) Unconditional rights to receive resources.	Economic benefits and service potential should be used in the definition of an asset(i).
2.24	"…. However, others believe that because a significant portion of the government assets	Understanding that the "service potential" is precisely one of the

	are employed to provide service and not to derive an economic benefit, the term "service potential" should be incorporated separately into the definition of an asset. In the rest of this CP, it is considered that there is a request to include in this approach the economic benefits as well as the service potential benefits, and the comment."	factors that distinguish us from the Public Sector, as the Public Sector operations' main goal is to provide services and a need for assets to deliver such services, and for that reason it may not be included in the term economic benefits.
(b)	What term should be used in the definition of an asset: (i) Economic benefits and the service potential; or (ii) Economic benefits?	What should be included is: "The economic benefits and the service potential" If in the economic benefits not only the fund flows are considered, but also the unconditional rights to receive the resources stated in the contracts.

Specific matter for comment 2:

(a) What approach do you believe should be used to associate an asset with a specific entity:

(i) Control;

(ii) Risks and rewards; or

(iii) Access to rights, including the right to restrict or deny others' access to rights?

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict or otherwise regulate others' access link a resource to a specific entity?

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Paragraph No.	Paragraph Reference	Opinion
2.26	**Assets of the Reporting Entity** Because the financial statements of a government or other public sector entity can include only its own assets, one type of essential characteristic of an asset is how an entity determines whether or not an asset is its asset. The issue, therefore, is how to link the rights or other access to the future benefits to the specific entity that benefits from them.	(iii) Access to the rights, including the right to restrict or deny access to others' rights.
2.38	"...In the latter example, the natural resource might qualify as an asset for the government."	Natural Resources are government-managed public assets of public domain, but they belong to all the citizens living in the national territory. So, for better management, the

		government will be able to obtain resources from them, either pass permits or royalties for the exploitation that will be considered government revenues over a public domain asset, that is a citizen-owned asset; on the other hand, such assets have a series of restrictions that the government private domain assets do not possess. Actually, all the assets, both of public and private domain, belong to the citizens of a country and the government is their administrator, so we understand that the Natural Resources should be part of a government's assets, the government being their administrator, which generate revenue or not, in which case they are Exploited Natural Resources and such assets constraints should be specified.
2.39	Requiring an entity to have an enforceable claim of an asset's benefits, such as through contractual rights, has also been suggested as a criterion to link the asset to the entity. Enforceability force can be represented not only by holding title to the resource, but also for being a party to a contractual arrangement, as this usually entitles an entity to access such benefits.	The *enforceable claim to the benefits* should only be supported by the contractual rights.
(a)	Which approach do you believe should be used to associate an asset with a specific entity: (i) Control; (ii) Risks and rewards; or (iii) Access to rights, including the right to restrict or deny others' access to rights?	An asset must be associated with an entity when: (i) You hold legal title of it; or (ii) The risks and benefits are assumed; or (iii) You have formal rights over them (contracts). What should not be considered: • Control or • The rights to restrict or deny access to others' rights.

(b)	Does an entity's enforceable claim to benefits or ability to deny, restrict or otherwise regulate others' access link a resource to a specific entity?	To be recognized as an asset, "prudence" should be applied and recognized only when the claim is actually enforced.
(c)	Are there additional requirements necessary to establish a link between an entity and an asset?	In the case of the rights, the relevant contracts, and in the case of public domain assets (Natural Resources) the existing constraints on them will depend on the laws of each country.

Specific matter for comment 3:
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Paragraph No.	Paragraph Reference	Opinion
2.41	**Asset at the Reporting Date** The third class of characteristic of an asset relates to requiring the other essential characteristics to be met at the reporting date.	The characteristic must be: a present resource originated in past events.
2.47 and 2.48	Some consider that the notion of an asset being a "present" resources is an essential characteristic rather than the requirement for a past transaction or event, as in some existing definitions. If a past transaction or other event is not considered to be an essential characteristic, it may be an indicator of evidence supporting the existence of a present resource. Regardless of how this is characterized, implicitly, to be an asset, the benefits embodied in a resource must exist at the reporting date and must be resources of the entity at that time.	Those are the two characteristics, some assets are the result of past events. The important thing is that such asset must exist at the end of the reporting date.

Specific matter for comment 4
Recognition and measurement criteria aside, are the public sector entities rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity active, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Paragraph	Paragraph Reference	Opinion

No.		
2.49	**Unique Rights or Powers of the Public Sector** Governments have unique powers and rights. As a result, assets maybe created in non-exchange transactions and by virtue of exercising sovereign powers. Being able to assess and issue licenses and other rights or powers to access or regulate access to the benefits conferred under intangible assets as the electromagnetic spectrum, are rights or powers that others do not enjoy. Given the important powers that are granted to sovereign governments and other public sector entities, it is often difficult to determine when such rights or powers meet the requirement of reporting an entity's resource and asset.	(b) A government entity's power to levy a tax or impose fees meets the definition of an asset only when the government has exercised that power through the tax or fee ACCRUAL (a power view). Rationale: We must be consistent with the concept of accrual; in paragraph 2.51 it says "levy", that would only be usable for determining the budgetary outcome but not the equity outcome.
	Are the assets inherent to a public sector entity active only when those powers are exercised, or is there a more appropriate intermediate event?	We understand that the Prudence principle should be applied only when such power is exercised by the State. The exercise of power by the state must not only be restricted to the right collection but it can also be defined at the moment in which the taxable event to acknowledge it is generated, with legal grounds supporting it.

Specific matter for comment 5

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
(b) Are there any other relevant issues, and particularly unique public sector considerations that the IPSASB needs to consider in determining the concept of assets?

Paragraph No.	Paragraph Reference	Opinion
	Assets of the State	Given their specific and unique public sector characteristics, they should be specifically contemplated.

Specific matter for comment 6

(a) Should the definition of a liability cover all of the following types of obligations?

(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to ensure against loss (risk protection).
(iii) Performance Obligations.
(iv) Obligation to provide access to or forego future resources.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Paragraph No.	Paragraph Reference	Opinion
3.11 – 3.12	**The Essential Characteristics of a Liability**	One of the characteristics of a liability is the UNCONDITIONAL OBLIGATIONS, with the scope of the present paragraphs.
3.21	**Settlement Date** Some believe that including the notion of a settlement date should be considered to determine whether an item is a liability or a contribution from an owner.	Including the settlement date can NOT be considered for the determination, as it is contrary to the essential characteristic of an Unconditional Obligation.

Specific matter for comment 7

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the reporting entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?
(b) Do you believe that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?
(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Paragraph No.	Paragraph Reference	Opinion
3.28	**Enforceability on the Entity**	It is the (c) criterion, Enforceable contractual, constructive, and equitable obligations, and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw. With the scope of paragraphs 3.35 and 3.36

Specific matter for comment 8

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Paragraph No.	Paragraph Reference	Opinion
3.42	**A need for identification of a past transaction or event.**	You must be consistent with the Asset specific matter 3. It should be a present obligation arising from an accrued past event. Thus linking this basic principle avoids the drawbacks of paragraph 3.43.

Specific matter for comment 9

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Paragraph No.	Paragraph Reference	Opinion
3.51	**Unique Public Sector Obligations** This approach sees the obligation to transfer resources as a necessary but not sufficient condition for identifying such responsibilities as liabilities. It holds that enforceability occurs only when events have occurred that obligate and commit the government to act in a particular way. Under this view, an obligation should comply with the definition of a liability only towards the right side of the above diagram	In this matter we must be consistent with matter 4 of Assets.
3.52	The unique role of the budget for some government entities may play a part in determining if an obligation exists. The budget may be based on stated management policies, be approved by the legislature, and it, along with the government's policies, and programs, may have force of law or regulation when the budget becomes effective. Does the approval of the budget transform such plan, policies and programs into enforceable obligations at the date the budget is approved?	Including a program in the budget does not constitute a debt. To constitute an enforceable obligation the due process should be concluded and accrued. Time required to make the payment.

Specific matter for comment 10
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations that the IPSASB needs to consider in determining the concept of liabilities?

Paragraph No.	Paragraph Reference	Opinion
3.45	**The essential characteristics of a Public Sector liability.**	Including in the sequence chart the concept of accrual as expressed in the "services rendered or goods received" table and its correlative "Recipients approved for eligibility".

Specific matter for comment 11
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in the net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?
(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Paragraph No.	Paragraph Reference	Opinion
4.1 4.2 4.3 4.4	**Approaches to Reporting Financial Performance**	In this section it is important to distinguish the face of budgetary performance from the face of equity performance, where different approaches should be applied.
4.6	**Revenue and Expense-Led Approach** Under the R&E approach, revenues and expenses are identified and defined as primary element flows basically related to the efforts of today.	This approach is applicable to the budget performance.
4.20	In the public sector, the budget plays an important role in the accountability cycle of the entity. It is the publicly communicated document against which results are measured, the basis upon which taxes are levied, and the basis for planning the resources needed for the goods and services to be provided for a predetermined period, usually one year. The focus on the current operations in	This approach is applicable to the budget performance.

	the R&E approach therefore is seen to increase the relevance of the statement measuring financial performance.	
4.9	**Asset and Liability-Led Approach** Under the A&L approach, the assets and liabilities are identified and defined first - basically, as resources and obligations. Revenues and expenses are then defined as the result of changes in the assets and liabilities. In fact, assets are the starting point in determining all the other elements, as liabilities are defined with reference to their claims on assets.	Applicable approach to equity performance
4.24	The predominant thinking behind this approach is that the measure of the financial performance should be grounded in real economic phenomena. Assets and liabilities represent resources and obligations that can be observed and verified directly. Using assets and liability definitions as anchors imposes limits or restraints on what can be included in the assets and liabilities (financial position), and also in the directly related aspect of financial performance. All items that represent changes in the net resources of the entity between financial reporting dates are included in the measure of financial performance, ensuring a high level of reliability, understandability, consistency and comparability of the information, and resulting in the relevant metric to assess accountability.	Applicable approach to equity performance
4.30	**Association With the Reporting Period** The first issue is how revenue and expenses should be associated with the reporting period. Are revenues and expenses recognized as flows that are "applicable" to the reporting period, or are they a result of flows "during" the period that change the stock of assets and liabilities? Flows include both cash and non-cash items. Which approach is more appropriate follows logically from the conclusion as to whether a R&E approach or an A&L approach should predominate, as explained above.	In this section it is important to distinguish the face of association with the budgetary period from the equity period, where different approaches should be applied.

Specific matter for comment 12
(a) Should transactions with residual/equity interest be excluded from revenues and expenses?
(b) Should the definitions of revenue and expenses be limited to specific types of activities associated with operations, however described?

Paragraph No.	Paragraph Reference	Opinion
4.40	**Exclusion of Transactions with Residual/Equity Interests** This section considers whether transactions with residual/equity interests should be excluded from the definitions of revenue and expense. Equity interests in the public sector differ from private sector ownership interests in that they generally do not relate to exchangeable equity holdings. Such interests and transactions are discussed in Section 5. Until the approach to ownership-type interests in the public sector is resolved, the CP refers to holders of such interests, such as residual/equity interests.	Address when analyzing Section 5.

Specific matter for comment 13
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Paragraph No.	Paragraph Reference	Opinion
4.13	Additional characteristics that have not been identified, that you believe are essential to the development of a definition of revenues and expenses	Explicitly break down the revenue for a particular purpose and the consequential costs, which do not affect the qualitative modification of equity or budget outcome. Partly covered by the example.

Specific matter for comment 14
(a) Do deferrals need to be identified on the statement of financial position in some way?
(b) If yes, which approach do you consider most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or

(iii) Included as sub-components of net assets/net liabilities.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Paragraph No.	Paragraph Reference	Opinion
5.6	**Deferred Outflows and Deferred Inflows** If revenues and expenses are to be defined with a characteristic that indicates they are "applicable to" the reporting period, as explained in Section 4, and the financial position and financial performance statements are to articulate, then one of the following approaches is required: (a) Define deferred outflows and deferred inflows as separate elements on the statement of financial position; (b) Broaden the definitions of asset and liability elements to encompass items that are deferrals; or (c) Describing the deferred outflows and inflows as sub-classifications of the net assets / liabilities.	The deferrals should be identified in the statement of financial position, which is alternative (a).
5.8	The first approach maintains a flow of resources approach and defines deferred items as follows: (a) Deferred outflow (of resources): an entity's consumption or reduction of net assets that is applicable to a future reporting period; and (b) Deferred inflow (of resources): an entity's increase or acquisition of net assets that is applicable to a future reporting period. The term "net assets" (assets less liabilities) is used in these definitions to differentiate these items from the results of transactions and events such as the repayment of debt or the acquisition of property, plant and equipment with a cash payment, where there is no change in the net asset amount.	The definitions are appropriate.

Specific matter for comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?
(c) Are there other relevant issues, and particularly unique public sector considerations that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Paragraph No.	Paragraph Reference	Opinion
5.12	**Essential Characteristics of Net Assets/Net Liabilities** Reporting the net financial position of a public sector entity provides valuable information to the primary users of the entity's financial statements. Service recipient and resource providers and their respective advisors use information about the net position at the reporting date to help them in assessing the management of the entity's short-term financial capacity, and its ability to sustain the level of programs and services it provides. Users, therefore, use this information to assess the related aspects of entity's financial and operating capacity.	There is an interest in the terms of paragraph 5.18.

Specific matter for comment 16
(a) Should transactions with residual/equity interests be defined as separate elements?
(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Paragraph No.	Paragraph Reference	Opinion

Specific matter for comment 17
(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all evidence available; or by basing the approach on the measurement attribute?
(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be?
If not, what threshold is reasonable for asset recognition and for liability recognition?

Paragraph No.	Paragraph Reference	Opinion
6.11	**The need for recognition criteria** The existence of uncertainty There are three approaches to dealing with existence uncertainty: (a) Standardize threshold criteria, such as recognition only if it is "probable" that future economic benefits associated with the item will flow to or from the entity; (b) Use all available evidence to make neutral judgments about the element's existence; and (c) Use threshold criteria or neutral judgments, depending on the underlying measurement basis of the element.	The (b) approach "Use all available evidence to make neutral judgments about the element's existence" is the most appropriate with the scope of paragraph 6.14.
6.20	Measurement **Uncertainty**	No comments.

Specific matter for comment 18

Do you support the use of the same criteria for derecognition as for the initial recognition?

Paragraph No.	Paragraph Reference	Opinion
6.23	**Derecognition Criteria** Recognition also includes timing considerations: it involves recording an element at the time of an initial transaction or event, or subsequently, if the required recognition criteria are not met until later. Recognition also entails an evaluation of whether changes have occured that warrant removing a previously recognized item from the financial statements. The latter process is called derecognition	We support the use of the same criteria for derecognition that we use for initial recognition.

Specific matter for comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Paragraph No.	Paragraph Reference	Opinion
6.26	**Should Definitions Incorporate**	The recognition criteria should

	Recognition Criteria	be a separate part of the element definitions.

Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

Specific Matter for Comment 1:
(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?

NAO is of the opinion that the definition of an asset should cover all of the above benefits – those in the form of service potential, net cash inflows and unconditional rights to receive resources. This is due to the fact that ownership of the asset will lead to the provision of goods and services of a particular volume (service potential) and the generation of future economic benefits such as net cash inflows and unconditional rights to receive resources.

(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

NAO opines that the term used to describe the definition of an asset should be economic benefits and service potential since many government assets are employed to provide services and not derive an economic benefit. Since the provision of services is important to government, service potential should be distinguished separately.

Specific Matter for Comment 2
(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others' access to rights?

NAO is of the opinion that the access to rights approach, including the right to restrict or deny others' access to rights, is to be used to associate an asset with a specific entity. If such right of access exists, the entity can determine how to use the benefits embodied in the resource.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

Yes, NAO believes that an entity's enforceable claim to benefits or the ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity. Where the entity has enforceable claim to benefits, this is an indicator that the asset belongs to

that entity. Where access to others is restricted or denied, this is another factor that might indicate that the entity owns the asset.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

A further requirement necessary to establish a link between the entity and an asset would be that the entity owns rights (such as copyright, patent and trademarks) to the asset. The entity would also be able to convert that asset into cash.

Specific Matter for Comment 3
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

NAO opines that it is preferable for there to be also a past event that occurs in order to recognise an asset. The occurrence of a past event provides further evidence of the existence of a present resource. However, in the absence of a past event, one is to evaluate whether the availability of a "present" resource on its own represents an asset.

Specific Matter for Comment 4
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

NAO is of the opinion that public sector entity rights and powers, such as those associated with the power to tax and levy fees, are assets only when those powers are exercised. The benefits associated with the power to tax, even if measurable, do not constitute an asset if that power is not exercised.

Specific Matter for Comment 5
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

NAO believes that there are no additional characteristics that have not been identified and that are essential to the development of an asset definition.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

The IPSASB is to consider how certain assets such as heritage assets are to be valued and the calculation of their estimated useful lives.

Specific Matter for Comment 6
(a) Should the definition of a liability cover all of the following types of obligations?

(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.

NAO is of the opinion that the definition of liability covers all the types of obligations except for the obligations to provide access to or forego future resources. Obligations to provide access in many cases would lead to the derecognition of assets rather than the incurrence of an obligation (liability) to supply those rights to another party.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Yes, NAO is of the opinion that a settlement date is an essential characteristic of a liability since it denotes that the liability is really due.

Specific Matter for Comment 7
(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

NAO believes that the ability to identify a specific party (parties) outside the reporting entity to whom the entity is obligated is to be considered an essential definition of a liability. This is due to the fact that a liability can only materialize as long as the identity of the other party is known.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Yes, NAO agrees that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. Otherwise, it would not be recognised as a liability.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

NAO supports the second approach in determining whether an entity has or has not a realistic alternative to avoid the obligation since it includes all enforceable contractual, constructive and equitable obligations and other constructive and equitable obligations associated with exchange transactions. In all these cases, the obligations are binding on government. In the case of non exchange transactions, such as the announcement of new programmes, although the announcement would be binding on government, it should be recognised as a liability when the amounts to recipients actually become due.

Specific Matter for Comment 8
Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

It is not sufficient to state that a liability is a "present" obligation, but there must also be a past event that occurs to place emphasis on the fact that the event giving rise to the entity's present obligation has already occurred.

Specific Matter for Comment 9
(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

NAO is of the opinion that obligations such as those associated with its duties and responsibilities as government are such when they become enforceable claims.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

NAO believes that the enforceability of an obligation is an essential characteristic of a liability because it ensures that the liability is really due.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

NAO believes that the definition of a liability should include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date. Such a fact is to be stated in the GPFRs to provide more information to users.

Specific Matter for Comment 10
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

NAO is of the opinion that there are no additional characteristics that have not been identified that you believe are essential to the development of a liability definition.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

None.

Specific Matter for Comment 11
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

NAO opines that revenues and expenses are to be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach).

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

NAO opines that this approach supports the concept that revenue and expenses are recognised during the period to which they relate. This is not to be considered as a smoothing of revenue and expenditure over a number of periods, but matching the revenue received relating to a particular period with the expenditure for that period.

NAO is also of the opinion that the revenue and expense-led approach results in a more accurate measure of inflows and outflows of the public sector entity and represents a more faithful representation of the results of the entity.

NAO believes that the Asset and Liability Approach results in more volatility in measuring performance.

Specific Matter for Comment 12

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

NAO opines that they should be excluded from revenues and expenses so that the real results of each Government Department will be able to be assessed.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

NAO believes that the definitions of revenue and expenses should not be limited to specific types of activities associated with operations but should include also gains and losses. This will provide a more faithful representation of Departmental performance.

Specific Matter for Comment 13
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

None.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

None**.**

Specific Matter for Comment 14
(a) Do deferrals need to be identified on the statement of financial position in some way?

Yes, NAO is of the opinion that deferred outflows and deferred inflow are to be identified on the statement of financial position.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.

Deferred outflows and deferred inflows are to be included as sub-components of assets and liabilities. NAO believes that this reflects the true nature of deferred outflows and inflows, reduces the number of key elements making up financial statements and thus will make it easier for users of financial statements to understand.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?
Not applicable.

Specific Matter for Comment 15
(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

NAO considers net assets/net liabilities to be an ownership interest since ownership exists in government both at the whole of government level and at entity level.

(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?

The concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, should be incorporated in the element definition.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

None.

Specific Matter for Comment 16

(a) Should transactions with residual/equity interests be defined as separate elements?

NAO believes that transactions with residual/equity interests are to be defined as separate elements.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

NAO considers the characteristics mentioned in Section 5.34 as all relevant to the definition. It would however like to distinguish between the residual/equity attributable to the entity and the residual/equity attributable to non-controlling interests. NAO would also like to include changes in accounting policies.

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

NAO believes that recognition criteria address evidence uncertainty by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence. This will help the reporting entity better determine whether a transaction meets the definition of an asset or liability.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Not applicable.

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?
Yes, NAO supports the use of the same criteria for derecognition as for initial recognition. This would ensure consistency in the approach to recognising and derecognizing elements in the financial statements.

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

NAO is of the opinion that the recognition criteria have separate and distinct requirements from element definition. This helps to better distinguish between definition and recognition criteria.

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June 22, 2011

Ms. Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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Dear Ms. Fox:

Thank you for the opportunity to comment on the International Public Sector Accounting Board's Consultation Paper on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements. I also appreciate you granting us an extension to June 22nd to submit, which allowed us to fully brief the executive management team.

The definition of financial statement elements and recognition criteria in the conceptual framework is a significant challenge due to the complex relationship between the public and the government. Ontario supports developing a definition of elements and recognition criteria specifically for the public sector and specifically for the purpose of preparing historical general purpose financial statements. Elements and recognition criteria would need to be different to support other types of general purpose reporting to the public. For example, Ontario is currently working on providing enhanced reporting on infrastructure assets. This reporting will go beyond what is appropriate in historical general purpose financial statements, and may be on a different basis of measurement that addresses general user needs for this type of information. The role of the government in taxing and delivering services, as a steward of public resources and as a regulator, are important concepts that impact the information users need in reporting.

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In our response to the specific questions posed by the Consultation Papers and the Exposure Draft on the conceptual framework, the following key issues appear:

1. The IPSASB conceptual framework needs to specifically address the role of government and the accountability it has to the public. The conceptual framework needs to acknowledge the existence of constitutional and legislative structures that exist which can impact how governments should report.
2. The IPSASB conceptual framework should be limited to supporting the preparation of General Purpose Financial Statements (GPFS) that meet the informational needs of the general public and not try to encompass broader financial reporting.
3. The conceptual framework should recognize and support the financial accountability relationship governments have with the public, and not try to change the relationship by implementing a sector neutral approach for financial reporting.
4. The public sector in Canada is driven by balanced budget concepts and delivering appropriate services to the public, and not the accumulation of equity or profit maximization. As a result, a revenue/expense approach to measuring government performance aligns best with the objectives of GPFS users in the public sector.
5. The primary users of public sector financial statements need clear and understandable information to gauge a government's performance against approved budgets. GPFS are a cornerstone in accountability reporting showing how the government balanced inflows with outflows of resources. Historical cost provides reliable measurement and faithful representation of government's use of resources, and supports the accountability relationship the government has with the public.

The above general issues are evidenced through the detailed responses to the comments posed in the consultation paper, which are included in the Appendix attached.

Our response highlights some of the difficulties in defining an element independent to the recognition criteria, and to the basis of measurement. The framework needs to limit the scope of the definition and recognition of elements to use in historical GPFS to produce meaningful and usable definitions by financial statement preparers and auditors.

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Ms. Fox
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I should point out that the jurisdictions across Canada established a Joint Working Group to advise PSAB on the requirements for a public sector conceptual framework for Canadian governments. This project continues through the development of the required framework. I understand PSAB has provided input in the development of the IPSASB framework and I expect that the Joint Working Group's comments have been appropriately considered.

Thank you for the opportunity to comment on the Consultation Paper and we look forward to updates on IPSASB's continuing conceptual framework development efforts, that would make this a viable conceptual framework for Canadian governments.

Yours sincerely,



Murray Lindo
Assistant Deputy Minister and Provincial Controller (Acting)
Office of the Provincial Controller Division

Attachment

c. Peter Wallace, Deputy Minister of Finance
Greg Orencsak, Associate Deputy Minister
Office of the Budget and Treasury Board

ATTACHMENT

Specific Matter for Comment 1:
(a) Should the definition of an asset cover all of the following types of benefits — those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii)Unconditional rights to receive resources?

Comments:

For governments, which represent socio-economic entities, assets are held primarily to delivery services, so the service potential of assets should be the primary benefit consideration. As policies change and resources are redeployed, governments may have some assets that may not be intended to support service capacity or policy implementation and reference to net cash inflows may occasionally be appropriate as net cash inflows represent the assets service potential to deliver services, such as when a government approves a decision to liquidate surplus assets at a time that the market value is less than the carrying value. We do not believe that service potential and net cash inflows can be used interchangeably, and that continuing to reference net cash inflows in reference to public sector assets held for delivering services will perpetuate risk of misinterpretation in application of the framework to the public sector, such as when an asset has no value commercially but supports a public service delivery objective.

Further clarification is required on the third consideration noted above (unconditional right to receive resources). Where such rights have been paid for, recognition is likely supported; however, where such rights are associated with an obligation by the entity to transfer economic resources to the supplier in the future, neither the asset nor the liability are generally reported (2.21). There is a concern that the concept of unconditional rights could be interpreted so broadly that crown lands, forests, water and mineral rights, etc., could require recognition in general purpose financial statements. Ontario would not support such recognition as it does not align with the purpose and user needs for GPFS to understand the inflows of resources available and outflows of resources consumed.

In addition, we feel the definition of an asset is also dependent on recognition. When related to GPFS, we do not see a benefit of recognizing an asset as an element if it is determined that it does not meet the recognition criteria. The definition of an asset element should combine both the nature of the benefit and the recognition criteria. We feel that separating the recognition from the element definition may create too much confusion in trying to use the conceptual framework.

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(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

Comments:

Economic benefits are commonly associated with the net cash inflows, and are a term more relevant to the private sector looking for a return on investment. This term does not represent the ultimate use of government assets which are generally used to provide social services.

Therefore, the definition of asset should focus on service potential and incorporate economic benefits only under limited circumstances such as assets not held for their service potential, but for their cash flow, like temporary investments held for sale.

Ontario believes that service potential is a characteristic on its own and not a component of economic benefits. In a public sector context, to fairly represent the nature of the assets, the emphasis needs to be on service potential. Since public sector assets are often only of optimal value when used to deliver the unique services of government, the only way to value service potential reliably is based on cost. This is another example where it is important for the IPSASB conceptual framework to clearly and consistently reflect the unique nature of the public sector vs. the private sector.

Specific Matter for Comment 2:
(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others' access to rights?

Comments:

We believe that the control approach is most closely aligned with the Public Sector Accounting Board's (PSAB) current definition and is the most appropriate basis upon which to associate an asset with a specific entity. In particular, PSAB defines assets as: "… economic resources controlled by a government as a result of past transactions or events and from which future economic benefits *are expected to be obtained*".

However, the risks and rewards approach (economic ownership) focuses on the government's exposure to the underlying economic attributes of a resource. By definition, if a government has the power and access to direct how the resource is used (i.e. the control approach), the government inherently is exposed to the underlying risks and rewards associated with the ownership of the resource. As well, the access to the rights to benefit from the resource is also embedded in the control approach. If a government controls a resource, it can determine the nature and manner for the use of the benefits embodied in the resource. Due to the nature of governments, access may exist but must be considered in relationship to intent (policy decisions) whether it reflects the accountability the government has to the public.

Thus, the control approach, the risks and rewards approach, and the access to rights approach are not mutually exclusive. For example, in Ontario, the measurement of control is used when assessing service concessions. However, we have determined that there would not be a change in treatment if we had used risks and rewards as directed by the IPSASB Service Concessions standards

All methods have limitations when it comes to addressing natural resources and crown lands. The government manages items such as crown lands or water rights on behalf of the public. However, this situation clearly shows how option (iii), access to rights, could incorrectly encompass assets that governments regulate and protect are not appropriate in GPFS as assets, as they are not resources for the government to consume in the delivery of services.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

Comments:

Yes. As discussed above, the ability to deny, restrict or otherwise regulate other's access is an important consideration in determining control over an asset, and is, therefore, the appropriate reporting. However, it is not an all encompassing factor for control. Factors, such as government decision and action to consume the resources in delivering public services, are critical. Many resources that are potentially available are being managed by government in a stewardship or regulatory capacity for the public but are generally not available to use in funding service delivery.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Comments:

Public sector organizations, particularly regulators, are performing a service on behalf of the public, but do not necessarily have the risks and rewards of that asset. For example, the ability to regulate access to harvesting a natural resource, such as managing fishing quotas, does not automatically make the natural resource (the fish) an asset of the government. It is important that the resource is controlled by the government and it will be used in funding public services. Many potential resources are an obligation for the government to manage and not a resource.

Specific Matter for Comment 3:
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Comments:

The existence of a past event is supported as it is an indicator of the right to access benefits of the resource.

In the absence of a past event, unrealized gains on financial instruments or crown assets, such as forests, could impact the yearly financial results, thus eroding transparency in general purpose financial statements and making the GPFS ineffective for accountability reporting to the public.

Specific Matter for Comment 4:
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Comments:

Consistent with the argument of a requirement for a past event to occur for an asset to be considered, it is appropriate to withhold recognizing an asset until the entity has exercised its power (thereby providing evidence of its right to access benefits). It is the intent, actions and decisions of government that should be reflected in the financial statements.

Specific Matter for Comment 5:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

Comments:

We have no additional comments on this topic.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Comments:

In Canada, most senior governments have chosen to align the preparation and presentation of their summary budgets on the same basis as their summary financial statements. Senior Canadian Governments feel that being able to provide budget-to-actual comparatives on the Statement of Operations best achieves transparency and accountability in meeting user needs, and that maintaining alignment between fiscal and accounting policy frameworks is desirable. A key objective of the IPSASB should be to support existing accountability frameworks in the public sector. Therefore, it will be critical for the IPSASB to consider the realities of existing international governments' fiscal policy frameworks (i.e. balanced budget frameworks) in determining the impact and likely acceptance of its conceptual framework and standards in the international community.

Specific Matter for Comment 6:
(a) Should the definition of a liability cover all of the following types of obligations?
(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.

Comments:

We believe that the definition of a liability should be limited to the obligations identified in (i) and (ii). The obligations to transfer benefits and the provision of goods and services in the future that arise from a past event may give rise to measurable liabilities to governments. Unconditional obligations would give rise to liabilities once the specified events (for example, flood or export receivable insurance obligations) occur and the amount can be reasonably estimated.

On the other hand, the performance obligations and obligations to provide access to or forego future resources represent a broad range of obligations that a government may encompass under certain circumstances. However, these obligations would not give rise to liabilities due to the absence of a past event. This aligns with the accountability goals of assessing the current government performance. Governments by their nature have responsibilities to provide ongoing services to citizens, some of which is required through internal or external legislation. The scope and nature of these services are determined by future decision makers and are paid for from future revenue streams which may or may not already exist. As such, we feel that service delivery should be expensed as incurred, but the proposed concept of performance obligation (iii) could require governments to recognize related liabilities before the service is provided. In addition, the idea of including obligations to provide access to or to forego future resources in option (iv) would compromise inter-period equity and violate a fundamental need for the public sector to report on the extent to which current period revenues cover current period expenses.

Governments are accountable to address the needs of the public and are held accountable through elections. However, it is at the government's discretion when and how they fulfill their accountability. As a result, accounting should not override the discretion of government and the legal authority of the jurisdiction. Performance obligations and obligations to provide access or to forego future resources that override the legal discretion available to government is inappropriate, as it is attempting to override the accountability relationship that has been established with the public and would misalign GPFS in being an accountability report.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Comments:

The requirement of a settlement date should not be considered an essential characteristic of a liability. Timing of settlement does not determine whether an obligation to a government exists at the financial statement date. When the obligation becomes unavoidable as a result of law or a government decision there may not be an agreed time to settle the obligation. A settlement date is only an important factor in determining measurement of the obligation and appropriate discounting methodologies.

Specific Matter for Comment 7:

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

(c) Which of the three approaches identified in paragraphs 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Comments:

An essential characteristic of a liability should require the ability to identify an outside party to whom the obligation exists; however, it should not be necessary to identify a specific party or parties to whom the obligation exist. There are situations as noted in the consultation paper where governments will have an obligation at the financial statement date, but may not be able to identify the specific parties to whom the obligation exists. In these situations, a liability should be recorded by the government in respect of these obligations even in the absence of an identified outside party.

We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. The absence of this characteristic may result in liabilities being recorded by the government at the financial statement date where settlement is uncertain and subsequently de-recognized in a future period.

We support the use of approach 2 (which include obligations that arise from the government's own actions or conduct) in determining whether an entity has a realistic alternative to avoid the obligation. Legal enforceability is a strong external indicator that a liability exists, creating a basis of recognition that is verifiable and objective. Since government and its policies are highly integrated into the legal systems, an approach that also encompasses moral or ethical obligations where there is no legal basis for enforceability, but where there is no reasonable alternative to the government to avoid the obligation, is also appropriate. Non-exchange transactions should not be incorporated as is proposed in approach 3, as it is important to respect the discretion of a government's sovereign power to avoid liability for future non-exchange transactions by cancelling future funding that has not yet been approved through legislation.

Specific Matter for Comment 8:
Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Comments:

The occurrence of a past event obligating the government is an essential characteristic of a liability. It is not sufficient to state that a liability is a "present" obligation. While the requirement of a "present" obligation may prevent including obligations that arise on the occurrence of a future event, there may be some obligations where a past event has not occurred that could be considered as "present" obligations, particularly with environmental obligations. In our view, these should not be captured as liabilities until the event occurs (such as becoming legally enforceable or the government obligates itself without a reasonable alternative to avoid).

Specific Matter for Comment 9:
(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Comments:
We believe that the recognition and measurement criteria must be considered when looking at the characteristics of obligations and liabilities and would caution that making decisions regarding this issue without considering the implications on recognition and measurement may result in unintended consequences when these factors are not considered. As noted in our comments with respect to the existence of a realistic alternative to avoid an obligation, most government obligations will exist based on enforceable claims, such as under contractual agreements; however, there may also be some obligations that arise from moral or ethical situations that may not be legally enforceable, but would exist based on an appropriate intermediate event.

Enforceability of an obligation is not an essential characteristic of a liability, as obligations may also arise from moral or ethical consequences that cannot be legally enforced. In the event that these can be tied to a past event and there is a previous pattern that would suggest that a government does not have a reasonable alternative to avoid the obligation, these obligations should be considered liabilities of the government. This position is consistent with approach 2 (which include obligations that arise from the government own actions or conduct) discussed in specific matter for comment 7 (above).

However, the definition of a liability must also reflect the role that sovereign power plays with respect to government obligations, in particular when it relates to non-exchange transactions, such as transfer payments or contributions to third parties that are dependent on annual legislative approval for continued funding. In recognition of this fact, liability should be based on legislation in force at the measurement date.

Specific Matter for Comment 10:

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Comments:
We do not believe that there are other additional characteristics that are essential to the development of a liability definition.

The nature of certain complex public sector programs, such as social benefit programs, should be considered independently from the liability definition. Attempting to consider these programs within the current concept of liabilities could have significant implications for governments and warrants separate analysis and discussion to review the uniqueness of these programs.

Specific Matter for Comment 11:

(a) Should revenues and expenses be determined by identifying inflows and outflows which are applicable to" the current period (derived from a revenue and expense led approach), or by changes in net assets, defined as resources and obligations, "during" the period (derived from an asset and liability-led approach)?

Comments:

We believe that revenues and expenses should be derived from a revenue and expense led approach.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Comments:

Financial accountability reporting should reflect the fiscal accountability model. Canadian governments and public sector entities operate under balanced budget frameworks and, therefore, budget documents focus on the statement of operations and do not typically include a statement of financial position. Having a statement of operations that is entirely focused on an asset-liability led approach is inconsistent with the accountability framework of public sector reporting for both governments and public sector organizations. Most service delivery organizations do not work like commercial enterprises to build value on their balance sheet. They have a mandate to take public money and use it on the delivery of services, and the balance sheet represents timing differences on the collection of revenue and the payment of expenses, as well accumulated surplus to support risk management. Many public sector organizations have unused funding recovered by the fund provider. As such, any inter-period equity or deficit created by the current asset-liability led approach can impact the surplus/(deficit) in a way that does not reflect the accountability model for public sector entities in Ontario to operate on a balanced budget.

In this regard, it will be important for the IPSASB to develop a conceptual framework that reflects the uniqueness of the public sector, including as a critical component the fiscal accountability frameworks that governments operate and which continue to be the focus for determining user needs in developing high quality accounting standards that best meet the needs of users.

Specific Matters for Comment 12:

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Comments:

Transactions with residual/equity interests should be excluded from revenues and expenses. In our view, in the public sector, net assets/net liabilities represent similar transactions with residual/equity interests as in the private sector. The net assets/net liabilities should be defined as a separate element since they do not arise from the transactions or events during the current period, rather than a residual amount of the difference between assets and liabilities. Comments to specific matter 15 provide more details on our view on net assets/net liabilities.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Comments:

In our view, revenue and expenses should be defined in general terms rather than be limited to specific types of activities associated with operations. Limiting definitions to specific transactions may result in difficulty in applying the concepts in practice if certain transactions are not included in the definitions. On the other hand, definitions in general terms may encompass all transactions in which governments or public sector entities engage during the current period.

In other words, we believe that the definitions of revenue and expense should include gains and losses, as they are considered to be subsets of the primary elements.

Specific Matters for Comment 13:

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

Comments:

We have no additional comments on this topic.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Comments:
We appreciate that the Consultation Paper simply presented the two approaches in an objective way without indication of preferance.

It is our impression that the international accounting profession is moving toward the balance sheet approach (focus on assets and liabilities). In Canada, PSAB has also recently adopted this perspective. However, in our view, which is shared by most other senior Canadian governments, the revenue and expense led approach best supports the balanced budget framework under which Canadian governments operate. This was a key recommendation of the Canadian Joint Working Group in the development of a conceptual framework for Canadian governments. Further, the budget is a primary financial document within the public sector and the summary budget and historical financial statement comparatives have been prepared on a consistent accounting basis chosen in the interest of transparency and accountability in reporting to the public.

As noted earlier, it will continue to be critical to IPSASB's long-term success to give due consideration to the impact of any proposed standard on government's fiscal policy decisions, and the quality of public sector financial reports in providing a faithful representation of the activities and performance of the government under the established accountability framework.

Specific Matter for Comment 14:
(a) Do deferrals need to be identified on the statement of financial position in some way?

Comments:
The section identifies that deferred inflows and outflows in the public sector relate to inter-period equity which is different to commercial concepts of deferred inflows and outflows that attribute revenue to match costs incurred. This comment is dependent on whether an asset-liability approach or a revenue-expense approach is taken. Ontario supports the revenue-expense approach and this would naturally lead to the deferrals needing to be incorporated into the definition of an asset or liability. Ontario supports the separate disclosure of deferrals from other types of assets and liabilities. Ultimately, the primary measures in public sector statements are in-year Surplus/(Deficit) and Debt for GPFS making separate presentation of deferrals a secondary consideration.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
- **(i) Defined as separate elements;**
- **(ii) Included as sub-components of assets and liabilities; or**
- **(iii) Included as sub-components of net assets/net liabilities.**

Comments:
Ontario has no strong preference between (i) and (ii) however, under either option the recognition of deferrals are essential for the preparation of meaningful GPFSs. We do not support the inclusion of deferrals as a sub component of net assets/net liabilities. The net assets/net liabilities are best to represent permanent contributions and previous yearly results and not have volatility based in inter-period equity. Deferrals are essentially timing differences in the recognition of revenue and expense, much like accounts payables and receivables are timing differences between cash and accruals and will be settled in due course. As such, we do not believe that deferrals should be included in net assets/net liabilities.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

The definition in 5.8 that defines deferred inflows and outflows related to being applicable to a future period appears sufficient, but instead of referencing net assets, may be better defined directly to revenues and expenses applicable to a future period as it references the statement of operations. This wording would need to be more closely considered based on the acceptance of other comments from the conceptual framework Exposure Draft and consultation papers.

Net Assets/Liabilities

Specific Matter for Comment 15:
(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

Comments:
We agree with the approach of net assets/ net liabilities to be a residual interest. Predominantly this supports government organizations more than senior level governments and they more frequently have transactions that may be better represented as a contribution/disbursement in net assets because it is not appropriate to be reflected as in-year revenue or expense. We agree the net asset/net liabilities of a government reflect the resources available to finance or deliver future services or amounts of past services that need to be funded through future revenues.

A good example is endowments, which are not appropriate to reflect as a current year revenue as it is not available to use to cover in-year expense, but it is also not appropriate to show as a liability as there is no expectation to ever pay it out.

(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?

Comments:
We agree that an appropriate way to reflect minority interest in certain government organizations should be addressed. We do not have a comment on this topic.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Comments:
We have no additional comments on this topic.

Specific Matter for Comment 16:
(a) Should transactions with residual/equity interests be defined as separate elements?
(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Comments:
In the Consultation Paper, IPSASB states that the reported net position assists users in assessing the management of the entities short-term financial capacity and its ability to sustain programs and services on a long term basis. Gross Domestic Product and economic conditions that are outside the purpose and scope of GPFS are more indicative of future resources available and the ability to sustain operations and should not be a consideration when developing a framework for GPFS.

We believe that further research/discussion is needed in this area. Net asset/liability could be significantly different under the different proposals in the Consultation Papers; for example, the recognition of deferrals, assets and liabilities. Under the different proposals, there are different risks regarding understanding the GPFS and of the public misinterpreting reported data.

IPSASB instructs Government Business Enterprises (GBE) to follow IFRS and as such, any outside third party interest will be accounted for appropriately under IFRS and the consolidation process. However, it is not clear how the "interest" theory would apply to non-GBE crown corporations.

In Canada, PSAB was designed only with senior governments in mind, and has yet to address this issue. Funds given to crowns could be considered a grant or capital infusion. The probability of a government organization in Canada with third party equity interest following IPSAS is unlikely.

Specific Matter for Comment 17:

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

Comments:

Recognition criteria should address evidence uncertainty by requiring a neutral judgment whether an element exists at the reporting date based on assessment of all available evidence. This approach provides better information because the recognized elements better meet the qualitative characteristics of faithful representation, relevance, and comparability. The approach is similar to the current Canadian Public Sector approach to make a judgment whether the future economic benefits are "expected … (to) be obtained or given up" at the reporting date.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Comments:

We do not support the threshold approach thus we have no further comments.

Specific Matter for Comment 18:

Do you support the use of the same criteria for de-recognition as for initial recognition?

Comments:

Yes, we support the use of the same criteria for de-recognition as for initial recognition. Using different criteria for de-recognition from for initial recognition may result in assets/liabilities that no longer meet the definition and recognition criteria but still exist on the financial statements, thus distorting faithful representation and relevance of the financial statements.

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Specific Matter for Comment 19:
Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Comments:
We feel that the conceptual framework should address the needs of General Purpose Financial Statements. To ensure a high quality framework, we encourage that elements should be defined specifically for the use by General Purpose Financial Statements to avoid misinterpretation and to make the framework easier to use. We do not recognize a value in defining elements that would not meet the recognition criteria for GPFS.

EKONOMISTYRNINGSVERKET

Date
June 22, 2011
Your date

Reference number
51-785/2011
Your reference number

Our reference
Curt Johansson

Comments on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the Conceptual Framework.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

Overall Opinion

We appreciate the work performed by IPSASB and find the resulting paper highly relevant and interesting.

Specific Matters for Comment 1

In our opinion the definition of an asset should include both economic benefits and service potential. Many of the assets within the public sector do not generate net cash inflow and therefore we believe it is appropriate to use service potential in the definition. We however have experienced that it sometimes is difficult to distinguish between when a transaction or event should be accounted for as an asset or as expenditure in the current operation. The definition of service potential should be more constrained than to provide goods and services in accordance with the entity´s objectives. We however have not developed a wording for a new definition.

The unconditional rights to receive resources in the future should not be included as a benefit. Those rights could be accounted for in a sustainability report but not in the financial statements.

Specific Matters for Comment 2

In our opinion control is the main approach to associate an asset with a specific entity. Sometimes control could be a too restrained criterion. We consider that the access to the rights of an asset could be a criterion for the definition of an asset. In the Swedish central government we have some jointly controlled assets with e.g. other countries within the European Union. Those are disclosed in the Statement of

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Financial Position as assets even if we do not have "control" of the asset, but according to the agreement we have access to the rights of the asset. In notes the entity should disclose the content of the agreement.

Specific Matters for Comment 3 and 8

In our opinion the occurrence of a past event should be a criterion to define assets and liabilities.

Specific Matters for Comment 4

In our opinion the public sector rights to tax and levy fees should only be accounted for as assets when those powers are exercised or when the event that gives the public sector the rights to exercise e.g. a specific tax have occurred.

Specific Matters for Comment 6-7

In our opinion the definition of a liability should cover performance obligations and other obligations if a transaction or event have occurred that makes eligible the right to receive a grant and there is no realistic alternative to avoid the obligation, e.g. if a dentist has the right to receive an amount for an examination that has been done according to contract. Obligations assignable to social benefits should be liabilities only if the entity has not fulfilled a legislative demand.

We support the second approach (b) in paragraph 3.28. The obligation to transfer grants in the future should not be included in the definition of a liability. Constructive obligations that are non-exchange transactions and not legally enforceable should accordingly not be included in the definition of a liability. To go further in the definition would not be understandable to the main users of the financial reports.

Specific Matters for Comment 9

We think that the assumption about the role that sovereign power plays within the public sector is important. Social benefit obligations in the future should not be liabilities because a government can walk away from the obligations. Those future social obligations could be disclosed in a sustainability report. To go further in the definition would not be understandable to the main users of the financial reports.

Specific Matters for Comment 11 and 14

In our opinion revenues and expenses should primarily be determined by changes in net assets defined as resources and obligations. It is important that the financial statements can be used for performance management as well as for evaluation of the financial performance within the entity. Therefore deferrals need to be accounted for in the financial statements and to be included as sub-components of assets and liabilities.

EKONOMISTYRNINGSVERKET

Specific Matters for Comment 15

We consider net assets/net liabilities primary to be a residual amount. Only if entities have an ownership in a GBE that part could be seen as an ownership interest.

Concluding remarks

We hope the comments given will be useful in your continuing work. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards and a framework for financial reporting.

Curt Johansson and Claes-Göran Gustavsson have prepared the comments given in this report.

Yours sincerely,

Ingemar Härneskog

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NSW GOVERNMENT | The Treasury

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Contact: B Richardson
Telephone: (612) 9228 4832
Our Reference: T06/01080
Your Reference:

20 May 11

Dear Ms Fox

Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities – Elements and Recognition in Financial Statements

New South Wales Treasury welcomes the opportunity to provide comments on the above Consultation Paper.

NSW Treasury believes that the IPSASB approach is contrary to long-term convergence between the IPSASB and International Accounting Standards Board (IASB) requirements. In past submissions, we have stated that, by having a separate IPSASB project on the Conceptual Framework, the IPSASB risks losing the discipline of rigorously analysing and justifying departures from the International Financial Reporting Standards (IFRS) requirements, which is the IPSASB's approach to individual IFRSs. The IPSASB document *Process for Reviewing and Modifying IASB Documents* states that a separate project should only proceed where the public sector issues are so significant that a public sector-specific project is justified. From our analysis, we do not believe that is the case for the Conceptual Framework.

Where there is overlap / duplication between the content of the IPSASB and IASB Framework, we believe that the original text of the IASB document should be used wherever possible. Where differences between the public and private sector are apparent, these differences could be minimised in the Consultation Paper if the IPSASB adopted the approach of modifying the IASB terminology. For example, by using the term 'economic resource' rather than 'economic benefits', the differences between the IPSASB and the IASB terminology would be reduced with no loss of meaning.

We also encourage the IPSASB and the IASB to work together on not-for-profit entity issues to ensure consistency in the Frameworks. The IASB will be considering the application of the Framework to not-for-profit entities as part of Phase G of its Conceptual Framework project. Some of the IPSASB issues may be addressed and resolved as part of that process.

If you have any queries regarding New South Wales Treasury's comments, please contact me on 612 9228 3019 or Barbara Richardson on 612 9228 4832.

Detailed comments on the Consultation Paper are attached.

Yours sincerely

R Williams

Robert Williams
for Secretary

ATTACHMENT

Specific Matter for Comment 1
(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?
(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

(a) NSW Treasury considers the definition of an asset should start with the IASB current working definition (IASB-FASB Conceptual Framework project Phase B – Summary of Decisions Reached to Date):

> 'An asset of an entity is a present economic resource to which the entity has a right or other access that others do not have.'.

The definition can then be amplified by including any public sector-specific concepts such as service potential, etc. We support paragraph 4.5 of the IASB Framework which states that

> 'The definitions ...identify their essential features but do not attempt to specify the criteria.....'

(b) Because the term 'economic resource' is used in the proposed IASB definition of an asset, NSW Treasury believes it more appropriate to use the term 'economic resource' rather than 'economic benefits'. If IPSASB continues to use the current term, NSW Treasury prefers (b)(ii) 'economic benefits', provided that text following the definition makes it clear that 'service potential' in the public sector may replace an economic benefit in the private sector.

Specific Matter for Comment 2
(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others' access to rights?
(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?
(c) Are there additional requirements necessary to establish a link between the entity and an asset?

(a) NSW Treasury prefers approach (i) Control. However, given that the IASB is very likely to adopt a 'right or other access' approach, we also would support approach (iii) which is a similar concept to the proposed IASB 'access to rights or other access that others do not have'.

(b) NSW Treasury believes more than one entity may have such ability over a particular resource. Therefore, such enforceable claim or ability does not necessarily link a resource to a specific entity. We also do not like the term 'or otherwise regulate', as regulation does not equate to control and can be misinterpreted.

Also, NSW Treasury notes the concept of 'enforceable claim' only arises in the proposed IASB definition of a 'liability' (IASB-FASB Conceptual Framework project Phase B – Summary of Decisions Reached to Date). Therefore, it might be confusing to use this concept in defining an asset.

(c) We have not identified any additional requirements. However, we believe any additional requirements that may be proposed by the IASB need to be considered in due course.

Specific Matter for Comment 3
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

NSW Treasury considers it is sufficient to state that an asset is a 'present' resource, to be consistent with the likely IASB approach. Sometimes it is impractical and costly to identify the associated past event. However, a past event can be an indicator of the existence of a past resource.

Specific Matter for Comment 4
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

NSW Treasury believes they are assets only when those powers are exercised. There appears to be no substantial difference between uncertainties surrounding such rights and powers and other assets. This approach is also consistent with the IASB deliberations, where the IASB decided to address uncertainty about whether an asset or liability exists as guidance accompanying the definitions.

Specific Matter for Comment 5
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

It is difficult to answer these questions until the IASB deliberations are finalised. Any definition gap between the IASB and the IPSASB can then be identified.

Specific Matter for Comment 6
(a) Should the definition of a liability cover all of the following types of obligations?
(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.
(b) Is the requirement for a settlement date an essential characteristic of a liability?

(a) As with assets above, NSW Treasury believes that the definition of a liability should start with the IASB current working definition (IASB-FASB Conceptual Framework project Phase B --- Summary of Decisions Reached to Date):

'A liability of an entity is a present economic obligation for which the entity is the obligor.'

Then, additional accompanying text would clarify the types of obligations to be included as liabilities. We agree that (a)((i)-(iv) would be included in this additional text.

Again, we believe that the IPSASB's definition should adopt wording consistent with the IASB to the extent possible, unless there is a public sector-specific reason for departure.

(b) NSW Treasury does not consider settlement date an essential characteristic of a liability. Settlement date is also not regarded by the IASB as an essential characteristic of a liability.

Specific Matter for Comment 7
(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?
(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?
(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

(a) NSW Treasury does not consider such ability an essential characteristic in defining a liability. It could be part of the supplementary discussion that it is not necessary to identify specific parties.

(b) NSW Treasury agrees in principle. However, we need to better understand the IASB proposal and how this underlies the definition. The IASB is describing the obligor as the bearer of an enforceable economic obligation.

(c) NSW Treasury supports option (c). We agree with paragraph 3.36 that non-exchange transactions should not be treated differently from exchange transactions in linking the entity and the obligation.

Specific Matter for Comment 8
Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

NSW Treasury believes that a past event indicates the existence of a present obligation, but is not essential in establishing the existence of a present obligation. Also, the IASB proposal is likely to refer only to a 'present' obligation.

Specific Matter for Comment 9
(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

(a) NSW Treasury considers that public sector entity obligations are obligations only when they are enforceable claims.

(b) NSW Treasury believes the enforceability of an obligation is an essential characteristic of a liability. We note that the IASB proposal refers to 'enforceable by legal or equivalent means' in its tentative definition of a liability, although it is not clear what 'equivalent means' are.

(c) NSW Treasury does not see the need for making such an assumption.

Specific Matter for Comment 10
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

(a) Three essential characteristics proposed by the IASB are, 'present', 'economic obligation' and 'obligor'. 'Obligor' may not be adequately covered by the IPSASB.

(b) No other issue has been identified.

Specific Matter for Comment 11
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?
(b) What arguments do you consider most important in coming to your decision on the preferred approach?

(a) NSW Treasury favours an asset and liability-led approach, which is consistent with the approach taken by the current IASB definition and the revenue recognition project.

(b) NSW Treasury prefers an asset and liability-led approach for the following reasons:

- This approach is consistent with the IASB approach.
- 'Deferred outflows' and 'deferred inflows' under the revenue and expense-led approach are economic rather than accounting concepts.
- The draft definitions of 'deferred outflows' and 'deferred inflows' potentially overlap the definitions of assets and liabilities.
- Adopting the 'inter-period equity concept' would create a precedent for public policy decisions to determine recognition principles.
- An asset and liability-led approach gives equal importance to the reporting of financial position and financial performance.

Specific Matter for Comment 12
(a) Should transactions with residual/equity interests be excluded from revenues and expenses?
(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

(a) NSW Treasury believes transactions with residual / equity interests should be excluded from revenues and expenses.

(b) No, NSW Treasury believes that gains and losses should also be included. Again, we should be consistent with the IASB approach, unless there are public sector-specific reasons to deviate from the IASB approach.

Specific Matter for Comment 13
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

No additional characteristic or other issue has been identified.

Specific Matter for Comment 14
(a) Do deferrals need to be identified on the statement of financial position in some way?
(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.
(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

(a) We do not think deferrals should be identified on the statement of financial position (see our response to Specific Matter for Comment 11).
(b) and (c) Not applicable

Specific Matter for Comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?
(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

(a) NSW Treasury considers net assets / net liabilities to be a residual interest. We do not believe the concept of an ownership interest is applicable to most types of public sector entities. The current IASB definition of equity refers to residual interest. This has not caused any problems to date.

(b) Consistent with response to (a) above, NSW Treasury does not think the concept of ownership interests should be incorporated in the element definition.

(c) No other issue has been identified.

Specific Matter for Comment 16
(a) Should transactions with residual/equity interests be defined as separate elements?
(b) If defined as separate elements, what characteristics would you consider essential to their definition?

(a) NSW Treasury disagrees with defining transactions with residual / equity interests as separate elements. Assuming net assets / liabilities is a residual interest, it would be inappropriate to separately identify and represent the existence of transactions that impact on that residual interest.

(b) Not applicable.

Specific Matter for Comment 17
(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?
(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

(a) NSW Treasury supports requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence, to be consistent with the IASB proposals.

(b) Not applicable.

Specific Matter for Comment 18
Do you support the use of the same criteria for derecognition as for initial recognition?

Yes, NSW Treasury supports the use of the same criteria for derecognition as for initial recognition. However, we will need to consider IASB's deliberations on this in due course.

Specific Matter for Comment 19
Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

NSW Treasury is of the view that recognition criteria should be separate and distinct requirements.

Newfoundland Labrador

Government of Newfoundland and Labrador
Department of Finance
Office of the Comptroller General

June 15, 2011

Ms. Stephenie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Ms. Fox:

Re: IPSASB Consultation Paper (CP)-Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (Phase II)

I offer the following comments to the Board on the Conceptual Framework Consultation Paper-*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* on behalf of the Provincial Government of Newfoundland and Labrador.

General Comments

In regard to this consultation paper, I refer to the general comments provided in response to CF-ED1, regarding the flexibility that must exist in relation to developing an international conceptual framework that reflects jurisdictional attributes and constitutional structures. As well, I reiterate our concerns in relation to the proposals of CF-ED1 which include: the extension of the scope to areas beyond the financial statements, and the proposal relating to the basis in which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity. In particular, our concern in respect of the extension to the scope beyond financial statements continues in relation to this consultation paper. This is evident from the fact that this phase is specifically in relation to financial statements and the reference to the scope extending beyond the financial statements is pervasive throughout the commentary (e.g. paragraph 1.7). As previously noted, the scope of this conceptual framework should be limited to financial statements. In consideration of the specific proposals of this consultation paper, the most significant concerns, as detailed below, are the IPSASB's proposals regarding: the essential characteristics in defining assets and liabilities, measuring financial performance and the proposal of other potential elements.

Assets

The commentary provided in relation to the IPSASB's proposed definitions for assets is clearly beyond the established practice in Canada based on the concepts and principles of the Public Sector Accounting (PSA) Standards. Specifically, our concern is with the discussion of the substance of an asset (identified in terms of the economic benefits provided by a resource) and the proposals regarding the essential characteristics that must be met at the reporting date.

In developing the substance of an asset, the IPSASB's proposes types of economic benefits (service potential, net cash inflows and unconditional rights to receive resources) which would extend the definition to possibly include items that are not considered appropriate. It is our view that for governments, which represent socio-economic entities, the service potential should be the primary benefit. Reference to economic inflows is not appropriate without service potential since it is at the entity's discretion whether any inflows will be associated with the asset. More significantly, the inclusion of unconditional rights to receive resources as a type of economic benefit could be interpreted broadly in relation to the unique characteristics of government. As a result, there is concern that certain aspects of a government such as its right and ability to tax its citizen's could be considered an asset within the proposed international framework. While paragraph 2.22 of the paper makes reference that the existence of all such rights may be relevant for users, it is our position that the existence of such rights does not reflect relevant information that should be recognized as an element in the statement of financial position.

In a similar manner, in relation to the required characteristics that must exist at the reporting date, it is our position that it is not sufficient to state that an asset is a "present" resource; there must be a past event that occurs. This would reflect support of a "power view" versus a "rights view". It is not government's unique public sector rights to natural resources such as mineral reserves, water, forests which allow them to grant or issue licenses, obtain royalties and even its power to tax that creates an asset. Rather, is it when a government exercises its power by levying a tax or assessing a fee that an asset or resource is created that should be reflected in the financial statements.

Currently, crown lands, forests and water rights are not currently recognized under PSA standards (unless consideration is paid). It is understood that intangibles (e.g. power to tax) and natural resources are not recognized as these items cannot be reasonably and verifiably quantified (absence of appropriate public sector recognition and measurement criteria). While there may be some perceived benefit associated with these unique rights of government, it is still questioned whether recording such items as assets would be useful or even appropriate from a financial reporting perspective. It is considered more appropriate to withhold from recognizing an asset until there is event were such an entity has exercised its power (provide evidence of its right and ability to access benefit) and to not recognize a right or a natural resource as an asset.

Liabilities

As similarly indicated above in relation to assets, the commentary provided in regard to the proposed definitions for liabilities is clearly beyond the established practice in Canada based on the concepts and principles of the Public Sector Accounting (PSA) Standards.

In considering the substance of a liability, the proposals bring in additional concepts of obligation beyond the conventional requirement to transfer cash, other services or to provide goods and services. The proposed concepts include unconditional obligations (including stand-ready obligations to ensure against loss (risk protection); performance obligations; and obligation to provide access to or forego future resources. Given the unique characteristics of government it sometimes leads to problems in accessing the extent of its obligation. In particular, the nature of its relationship with citizens, through perception of its social and moral obligation (stand ready to provide cash and goods and services under law, regulation and even past practice where a sector of the population experiences hardship), proposes difficulty in drawing a distinction between a conditional obligation and a stand-ready unconditional obligations. Introducing such concepts to the definition is not supported as it will result in additional liabilities and vastly expand practices that currently exist under Canadian generally accepted accounting principles. Rather, it is our position, as noted in relation to assets previously, that only specific actions (past transaction or appropriate intermediate event) taken to fulfill an obligation (in absence of a realistic alternative to avoid) can result in an element (in this case a liability) to be recognized in the financial statements. Therefore, it is not sufficient to state that a liability is a "present" obligation. Further, in relation to constructive and equitable obligations, the characteristic of little or no discretion to avoid settlement of the obligation is an essential consideration in determining a liability.

Financial Performance and Other Potential Elements

The proposals in this area are considered significant as it deals with measuring financial performance and proposes changes in relation to the basic financial statement elements. The PSAB conceptual framework reflects the asset and liability-led approach (similar to other conceptual frameworks within Canadian generally accepted accounting principles). While there are circumstances that may arise in the public sector where certain transactions cannot be recognized as a deferral (in the absence of a performance obligation), deferral of revenue occurs if it appropriately reflects substance of the transaction and supports accountability. This is achieved in a manner that generally supports a basis of accounting that reflects the full nature and extent of the financial affairs and resources that support accountability. As such, it is our view that any consideration of recognizing deferred inflows and outflows should be in relation to the existing elements (i.e. separate elements are not required). All financial statements have equal relevance and value in public sector reporting. In a similar manner, it is supported that one approach cannot be at the detriment of the other. The substance of transactions should be reflected in a manner that protects the integrity of the surplus/deficit as well as the statement of financial position to achieve financial accountability.

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,

RONALD A. WILLIAMS, CA
Comptroller General of Finance

cc: Terry Paddon, Deputy Minister of Finance

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The Institute of Chartered Accountants of Pakistan

HEAD OFFICE

Technical Director
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CANADA

June 15, 2011

Subject: **COMMENTS ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS**

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned exposure draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Haroon Tabraze
Director Technical Services
The Institute of Chartered Accountants of Pakistan
haroon.tabraze@icap.org.pk

COMMENTS ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

Specific Matter for Comment 1:

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:

(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?

Comments

The definition of an asset should cover service potential and net cash inflows; however, it should not include unconditional rights to receive resources as it is not in their own control - the entity from whom such rights are to be claimed may not be in a position to provide these due to several reasons including financial.

(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

Comments

Term “Economic benefit and Service potential” should be preferred because use of term “The Economic Benefit” may create some ambiguity.

Specific Matter for Comment 2

(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others’ access to rights?

Comments

The Risk and Rewards approach is more appropriate to associate an asset with a specific entity.

(b) Does an entity’s enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others’ access link a resource to a specific entity?

Comments

We believe that the global scope ability to deny, restrict or regulate access may not be a proper criterion for linking an asset to a specific entity.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Comments

By including the additional requirements the framework may narrow the scope of the linkage so the Risk and Reward approach stands simple and appropriate.

Specific Matter for Comment 3

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Comments

For initial recognition of assets, it should be a present resource.

Specific Matter for Comment 4

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Comments

In many under developed countries political systems are volatile and uncertain, so it is more appropriate to identify asset if the powers are exercised because at this point risks and rewards are materilaised.

Specific Matter for Comment 5

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

Comments

None

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Comments

None

Specific Matter for Comment 6

(a) Should the definition of a liability cover all of the following types of obligations?

(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.

Comments

To make the definition more comprehensive and wide all the above type of obligations may be included.

(a) Is the requirement for a settlement date an essential characteristic of a liability?

Comments

No the requirement of settlement date should not be an essential characteristic of a liability.

Specific Matter for Comment 7

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

Comments

The ability to identify specific party outside the reporting entity should be considered an essential characteristic in defining a liability. if this is not the case the these can be reported as contingent liability.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Comments

Yes we agree that that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Comments

In the under developed regions having fragile political systems the only realistic approach is (a) “Enforceable contractual, constructive, and equitable obligations”.

Specific Matter for Comment 8

Is it sufficient to state that a liability is a “present” obligation, or must there be a past event that occurs?

Comments

In our opinion it is sufficient to state that liability is a present obligation.

Specific Matter for Comment 9

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

Comments

Enforceability of an obligation is an essential characteristic of a liability else it may be reported as contingent liability.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

Comments

Yes, enforceability is an essential characteristic.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Comments

In Pakistan, this assumption should not be considered in defining the liability.

Specific Matter for Comment 10

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition*?*

Comments

None

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Comments

None

Specific Matter for Comment 11

(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

Comments

In our opinion the most appropriate basis for determining revenue and expense is by identifying inflows and outflows related to the current period. Revenue and Expense led approach is the one which effectively meets the objects of GPFRs set for its users.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Comments

Argument in 4.21 is the most significant one.

Specific Matter for Comment 12

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Comments

Depending upon the nature of the transaction with the residual/ equity interest, it should be made part of revenue and expense because the identification of equity interest holder may be ambiguous.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Comments

Limiting the definitions of revenue and expense type of activities associated with operations will more effectively serve the information needs of primary users of GPFRs

Specific Matter for Comment 13

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

Comments

None

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Comments

None

Specific Matter for Comment 14

(a) Do deferrals need to be identified on the statement of financial position in some way?

Comments

Yes the identification of deferrals on the statement of financial position will increase the understandability of GPFRs.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.

Comments

Most appropriate approach is (a) Defined as separate elements

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Comments

Yes, the definition is given at paragraph 5.8 is suitable.

Specific Matter for Comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

Comments

In our opinion the net assets/net liabilities should be considered as residual amount.

(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

Comments

It will be more appropriate if the concept of ownership interest is treated as subclassification of net assets.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Comments

None

Specific Matter for Comment 16

(a) Should transactions with residual/equity interests be defined as separate elements?

Comments

The transactions should be included as subclassification of net assets.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Comments

NA (Not Applicable)

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

Comments

In our opinion the recognition criteria should require a neutral judgment based on assessment of all available evidence.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Comments

NA

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?
Comments

It is appropriate to use same approach for derecognition as for initial recognition

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Comments

We incline towards the view that recognition criteria should be a included as separate and distinct requirements

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June 10, 2011

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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CANADA

Dear Ms Fox

Phase II of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

As stated in our letter dated June 10, 2011 on the Exposure Draft of phase I of the IPSASB's Conceptual Framework project, the IDW recognizes that there is a distinct need for a conceptual framework for general purpose financial reporting by the public sector. We continue to believe that, as stated in our letter to you dated 31 March 2009, the discussion is of fundamental importance for the future development of International Public Sector Accounting Standards.

In the aforementioned letter, to which we refer, we also stated our support for the IPSASB in now concentrating significant resources on bringing this important project forward, but expressed our concern as to whether the IPSASB's timetable may be overly optimistic, as it would essentially mean that the IPSASB would complete the project independently – and thus likely ahead – of the IASB's Conceptual Framework Project.

Indeed, in respect of this phase of the project we also accept that differences between the public and private sector will need to be addressed, but nevertheless believe that at a conceptual level there are likely to be significant areas of common ground between the two sectors, and therefore also urge the

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB CPA;
Manfred Hamannt, RA

INSTITUT DER WIRTSCHAFTSPRÜFER

Board to confer with the IASB on the issues dealt with in this phase of the project prior to finalizing the project as a whole.

Having said this, we believe the IPSASB has posed the right questions to gain insight into the views of its constituents. However, the IDW has chosen not to respond to each Specific Matter for Comment identified in the consultation paper, concentrating instead on areas where there may be significant differences between the private and public sectors.

- In respect of Specific Matter for Comment no. 1, the IDW believes that unconditional rights to receive resources will constitute relevant information. However, as such rights are of a contingent nature, this will impact their measurement and therefore the existence of such rights would be best disclosed in the notes rather than their constituting an element.
- In respect of Specific Matter for Comment no. 2, the IDW supports consideration of a mixed model including control and risks and rewards as is its position for the private sector. Access to rights, including the right to restrict or deny others' access to rights is overly restrictive.
- Specific Matter for Comment nos. 3 and 4 discuss public sector powers to tax and levy fees. In our view, in order to recognize an asset or liability there would need to be a past event. It would therefore seem to make sense for public sector powers to tax and levy fees to only be recognized as assets once the powers have been exercised. This is, however, the type of issue that has not been debated within the IASB's Conceptual Framework Project. Therefore, more consideration needs to be given as to whether and, if so, what extend criteria for these types of powers can differ from the general criteria for asset or liablility recognition.
- Specific Matter for Comment no. 6(b) considers whether the requirement for a settlement date is an essential characteristic of a liability. In our view, the answer has to be no, as this is only a measurement issue relevant in the discounting calculations. For example, it may not be possible to estimate a settlement date for a claim to damages subject to judiciary proceedings – nevertheless it may be appropriate to recognize a liability. We do not see any public sector specifics in this context.
- Specific Matter for Comment no. 7 (a) considers whether the ability to identify (a) specific party(ies) outside the reporting entity to whom the entity is obligated should be considered an essential characteristic in defining a liability. We do not believe that the ability to identify (a)

specific party(ies) outside the reporting entity to whom the entity is obligated should be considered an essential characteristic in defining a liability in either the private or public sector; indeed, in both cases such identification may be impracticable or even impossible. Similarly in no.7 (b), we agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability – again this does not constitute a public sector specific in our view.

- In respect of Specific Matter for Comment nos. 11 and 14, the IDW favors the asset and liability led approach.

We hope our comments will be useful to the IPSASB in drafting this phase of the framework. We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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