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April 29, 2011

Ms. Stephenie Fox
The 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:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultative Paper on Elements and Recognition in Financial Statements. We are pleased to see the IPSASB move forward in developing the conceptual framework.

2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

3. The following responses are provided for each specified comment:

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?

Response—We are comfortable with including all 3 types of benefits: service potential, net cash inflows, and unconditional rights to receive resources. However, there is need for further clarification about "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?

Response-- To be all inclusive, we prefer the term "economic benefits and service potential".

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?

Response--We believe "control" is the approach that should be used in defining an asset. However, the third approach (access to rights, including the right to restrict or deny others access to rights) is considered acceptable.

(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?

Response—As long as any claim is enforceable and provides service potential to an entity, it should be considered an asset.

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

Response—No other requirements are necessary.

Comment 3:

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

Response—It is not necessary that a past event occur as long as control exists at the present time.

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?

Response—As long as the rights are legally enforceable, they are an asset only when those powers are exercised.

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?

Response—No other characteristics need to be considered.

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

Response—No other relevant issues need to be considered.

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.

Response—We believe a liability is incurred for all obligations that have an enforceable claim as long as they are "more likely than not" to occur. This includes unliquidated obligations as well as lawsuits.

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

Response--Yes, but the settlement date may be an event such as the death of a retiree as long as it an enforceable claim.

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?

Response—We believe that a specific party outside of the reporting entity needs to be identified for it to be an enforceable claim.

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

Response—We do not believe that constructive obligations should be recognized as a liability unless it is enforceable.

(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?

Response—We support the first approach (enforceability). However, the third approach is acceptable since non-exchange transactions should not be treated differently from exchange transactions in linking the entity and the obligation. A public sector entity cannot realistically withdraw from non-exchange transactions.

Comment 8:

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

Response—We believe that a present obligation must exist and it is not contingent on the existence of a past transaction.

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?

Response--Obligations become liabilities only when they are legally enforceable. However, we recognize that there may be an appropriate intermediate event since all the claims and announced plans/ programs of the public sector entity may also be considered as obligations. There is also a need to apply substance over form, in that a sovereign government may be able to retrospectively amend laws to remove obligations. This is addressed in (c) below.

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

Response—Yes, we believe 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?

Response—It does not take into consideration the sovereign power that government has. This may be relevant but does not normally need to be made explicit.

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?

Response—There are no other characteristics that we would propose.

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

Response—There are no other relevant issues that we would propose.

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)?

Response—This is an extremely esoteric discussion. In most circumstances, the two approaches should yield identical results. Where there is a difference we prefer the A&L approach since it more accurately reflects their values at the end of the period (and they are more easily verified). However, both examples referred to in paragraph 4.12 illustrate the differences in the reporting of revenue under the two approaches. More examples are needed to illustrate the differences in the reporting of expenses. This is especially true of deferred outflows for pensions and derivatives. Also, we believe the example in paragraph

4.13 is a good example of a deferred inflow and outflow. It seems to us that revenue and expense would be the same under both approaches since the revenue would be recognized when the condition (construction) is met and would not be deferred to a future period. Further, under current accounting practices, deferred revenue would be recognized at the time the tax receivable is recorded for the example in paragraph 4.16. Thus both approaches end up with the same result. There is need for example(s) that more clearly identify circumstances where the alternate approaches can yield different results. In most situation the difference is more about process than results. In addition, we do not believe that the statement in paragraph 4.21 is true since obligations under the R&E approach would also be passed on to future taxpayers just as under the A&L approach. Finally, we don't agree with the last sentence in paragraph 4.37 and suggest that it be eliminated.

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

Response—The most important element in evaluating financial performance through the use of performance measures is the total cost of services provided (the expenses). No example has been shown that expenses would be misstated if the A&L approach were adopted.

Comment 12:

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

Response—We prefer to run everything through surplus or deficit rather than clutter up residual equity. It is more understandable to the less knowledgeable users of the GPFR since the Net Changes Statement is fairly straight-forward.

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

Response—Not necessarily. We believe that revenue should be recognized in the period when earned and expenses should be recognized in the period when incurred regardless of whether it relates to operations.

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?

Response—The key characteristic of the public sector is that in general revenues and expenses are unrequited. This makes application of the matching principle used in the private sector problematic and hence leads to many of the problems identified in this paper. A conceptual model for the public sector would provide a framework for resolving the 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?

Response—No other issues are considered pertinent to the conceptual framework.

Comment 14:

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

Response—Yes, we believe that deferrals should be identified in some way on the GPFR. However, the first sentence in paragraph 5.1 applies to the R&E approach while the last sentence applies to the A&L approach. Thus, both approaches support an inter-period equity concept. In paragraph 5.2, the A&L approach also relates to their position at the end of the current period; thus, R&E is appropriately recognized. In paragraph 5.4, this Consultative Paper uses the R&E approach and the inter-period equity concept interchangeably. These terms are not the same. Where inter-period equity is used, R&E approach should be used since inter-period equity applies equally to the A&L approach.

(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.

Response—We believe that deferrals should be identified as separate elements on the GPFR. Further, in paragraph 5.6(b), we think current definitions of assets and liabilities already encompass deferrals and no

broadening is needed. However, we could accept deferred outflows and deferred inflows as "sub-components of assets and liabilities". More illustrative examples of deferred expenses are needed.

(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?

Response—The definitions are adequate but more examples (especially deferred expenses) are needed to explain the application.

Comment 15:

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

Response—We believe that the net position represents a residual amount which should include minority interests. However, in paragraph 5.19, we think investing should be added whenever the Consultative Paper refers to operating and financing.

(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?

Response—We believe that the concept of ownership interests should relate to minority interests.

(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?

Response—No other issues need to be considered.

Comment 16:

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

Response—Such transactions need not be separately defined.

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

Response—If recognized, they should be relevant and reliable.

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?

Response--We support neutral judgment using the "more likely than not" criteria. Thus, we think that unliquidated liabilities would be recognized on the face of the financial statements since, in most cases, they are more like than not to occur.

(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?

Response—We support a neutral judgment to determine if the asset or liability should be recognized.

Comment 18:

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

Response--We support using the same criteria for both.

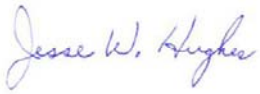
Comment 19:

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

Response--We think that one must first meet an element definition and then meet the recognition criteria. Each stage should be separate and distinct.

4. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.851.0525.

Sincerely,



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1 July 2011

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Dear Ms Fox

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

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Consultation Paper (CP). In formulating its comments, the AASB considered the views received from Australian constituents.

General Comments

Relationship between the IPSASB and IASB Conceptual Framework projects

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable.

The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work.

In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

In the context of this CP, the AASB recommends that differences between the IPSASB and IASB Conceptual Frameworks in relation to the definitions of, and recognition criteria for, the elements of financial statements should occur (if at all) only when there is a public-sector-specific reason for those differences. This view is reflected in the AASB's comments in this submission.

Due process

The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project.

Specific Comments

The AASB's most significant specific comments regarding the issues in the CP are set out below and elaborated on in Appendix A.

'Asset and liability-led approach'

The AASB supports the 'asset and liability-led approach' for identifying revenues and expenses. The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities.

An important reason why the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.

The AASB does not consider the 'revenue and expense-led approach' to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an 'asset and liability-led approach', if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A 'revenue and expense-led approach', properly developed and in a form the AASB would find acceptable, might complement an 'asset and liability-led approach'.

Generic definitions of assets and liabilities

The AASB suggests defining assets and liabilities generically, without requiring them to have an association with the entity. The AASB considers that it is useful to focus on the nature of economic phenomena (economic benefits and claims to economic benefits) that affect various entities, without restricting definitions of assets and liabilities to only phenomena that affect the reporting entity. It considers that criteria for associating those particular phenomena with the reporting entity should be included in recognition criteria. This approach has the advantages of:

(a) keeping the definitions relatively simple and readily understandable; and

(b) helping minimise the risk that standard setters and others will 'peek ahead' to consider whether consequences of the definitions for the recognition of assets and liabilities will be desirable and/or consistent with existing conventions. Developing definitions that do not necessarily affect reporting entities should help in focusing on the economic phenomena to be identified as the elements of financial position (and, by derivation, the elements of financial performance).

Consistent with this view, the AASB recommends that assets and liabilities should not be limited to items that would necessarily be recognised in financial statements. Accordingly, a government's rights/powers to tax and levy fees and social benefit obligations should be identified as assets and liabilities respectively, although these elements might not qualify for recognition in the financial statements.

This approach also lends itself to coping with developments in accounting thought that result in more types of assets being recognised over time. Assets may exist but accounting methodologies regarding recognition and measurement may change.

'Exchange' and 'non-exchange' transactions

In various places the CP analyses the implications of transactions for the definition and recognition of elements of financial statements by reference to whether the transactions are 'exchange' or 'non-exchange'. In some of these cases the nature of the transaction potentially determines whether, or when, an element can arise (for example, paragraphs 2.49, 3.33 – 3.34, 3.55 – 3.58, 4.32 and 4.42 – 4.45).

The AASB notes that 'exchange transactions' and 'non-exchange transactions' are not defined in the CP and that the discussion of these terms presumes that, at a conceptual level, the distinction between exchange and non-exchange transactions is important (without explaining that presumption). The AASB considers that the issue of whether to distinguish exchange and non-exchange transactions is a standards-level issue only, and that the terms 'exchange' and 'non-exchange' should not (and need not) be used in the IPSASB Conceptual Framework.

The AASB notes that in various other places (for example, paragraphs 3.14, 3.29, 3.35 – 3.36, 3.45, 3.53, 4.13 and 4.28), reference is made to exchange and/or non-exchange transactions apparently as a clarification (for example, to indicate that the classification of a transaction as 'exchange' or 'non-exchange' is not a significant factor in determining

whether a particular element arises or should be recognised). Because the AASB considers that the distinction between exchange and non-exchange transactions is a standards-level issue only, it also recommends omitting these references to 'exchange' and/or 'non-exchange' transactions.

The AASB's responses to the specific matters for comment in the CP are set out in Appendix A.

Other AASB comments on the CP are set out in Appendix B.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns (mginns@aasb.gov.au).

Yours sincerely



Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB's response to the Specific Matters for Comment on the CP

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?

The AASB supports a definition of an asset that covers all three types of benefits listed in Specific Matter for Comment 1(a). The AASB observes that these types of benefits are not mutually exclusive. Assets held by not-for-profit entities to provide services (and which are explained in paragraph 2.16 as possessing 'service potential') would generally also be held to generate net cash inflows, either directly through user charges (as noted in paragraph 2.19) or indirectly in the form of transfers from government and/or taxes. Sometimes a cash inflow may be in the form of an explicit subsidy of the cost of services provided, or implicit in the raising of revenue at an entity-wide level (for example, in the form of some taxes). The fact that some net cash inflows are more difficult than others to relate to particular assets does not necessarily mean the assets are not cash-generating.

The AASB observes that unconditional rights to receive resources embody service potential and a capacity to generate net cash inflows, as they will be converted into other assets also possessing those benefits or attributes.

In relation to Specific Matter for Comment 1(b), the AASB would prefer using the term 'economic benefits' in the definition of an asset, with clarifying guidance that service potential is a sub-set of economic benefits.

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?

As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element's definition.

In relation to Specific Matter for Comment 2(a), it may be difficult, in some circumstances, to associate an asset with an entity without considering the notion of control. Sometimes a resource is only a right (e.g., an amount receivable) and sometimes a resource is an object (e.g., owned property) that gives rise to various rights of its holder. This can cause different interpretations of 'rights' in relation to the identification of assets – for example, some argue that if a resource is a right, there is no obvious reason why it is preferable to say an entity *has access to that right* than to say an entity *controls that right*. In addition, if an asset is a right of access, using 'access to rights' would be confusing, because one would then say an entity has access to a right of access. Here, control would be more understandable. Therefore, the AASB supports an approach that includes either or both of the notions of control and access to rights, including the right to restrict or deny others' access to rights. The AASB also considers that the risks and rewards notion may be a useful indicator of control and access to rights.

In relation to Specific Matter for Comment 2(b), the AASB considers that, depending on the nature of the item, either an enforceable claim to benefits or the ability to deny, restrict or otherwise regulate others' access would be necessary to link an asset with an entity. In this regard, the AASB agrees with the views in paragraphs 2.39 – 2.40 of the CP, but in the context of recognition criteria for an asset rather than the definition of 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?

The AASB considers that every asset of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that *identification* of a past transaction or other past event of the reporting entity should not be necessary for an asset to qualify for recognition. This is because the AASB agrees with the argument in paragraph 2.46(b) of the CP, albeit in the context of recognition criteria for an asset rather than the definition of an asset (because a past transaction or other past event would be one way of associating an asset with a particular reporting entity).

Nevertheless, the AASB supports:

(a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that an asset of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while

(b) noting that the existence of a past transaction or other past event does not guarantee that an asset continues to qualify for recognition.

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?

As mentioned in the covering letter, the AASB's view is that assets should be defined without limiting them to items that would necessarily be recognised in financial statements. In addition, as noted in its comments on Specific Matter for Comment 19, the AASB is of the view that the recognition criteria should be separate from definitions of the elements of financial statements. Accordingly, a government's rights/powers to tax and levy fees should be identified as assets, although assets associated with a government's rights/powers to tax and levy fees might not qualify for recognition in the financial statements until an event (such as the exercise of the rights/powers) occurs. The AASB does not support depicting a right to tax as a 'perpetual asset' because the levying of some taxes constrains the government's ability to levy further taxes—therefore, some of the future economic benefits embodied in the right to tax are consumed by the levying of the tax (and therefore the right is not perpetual).

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?

As indicated in the AASB's submission on the IPSASB CP *Measurement of Assets and Liabilities in Financial Statements*, an idea of the stock of an entity's wealth (or capital) is important for defining the elements of its financial statements. This is because assets and liabilities are stores of wealth and claims to those stores of wealth. This point is reiterated here as a reminder of the link between the measurement and elements components of a Conceptual Framework.

Subject to the comment above, the AASB has not identified any additional characteristics or other relevant issues. The AASB does however recommend that the definitions of assets and liabilities be symmetrical, or at least that any asymmetry is explained.

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?

Consistent with its comments on Specific Matter for Comment 4, the AASB supports a broad definition of a liability, whilst noting that some types of liabilities may not meet the recognition criteria. A broad definition of a liability could lead to some hotly debated public-sector-specific 'obligations', such as social benefit promises, being identified as liabilities.

In relation to Specific Matter for Comment 6(a), the AASB agrees that the types of obligations described in (a)(i) to (iv) are liabilities. The AASB is concerned that (a)(iv) includes two types of obligations that should be considered separately.

In relation to Specific Matter for Comment 6(b), the AASB does not consider that a particular settlement date is an essential characteristic of a liability. Although a settlement date may be relevant in the context of a contract, it is not always necessary.

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?

As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element's definition.

In relation to Specific Matter for Comment 7(a), the AASB is of the view that the definition of a liability should not require the identification of a specific party or parties outside the reporting entity to whom the entity is obligated, for the reason given in the last sentence of paragraph 3.25.

In relation to Specific Matter for Comment 7(b), the AASB considers that the absence of a realistic ability to avoid the obligation should not be identified as an essential characteristic of a liability. The AASB considers that this is a factor associating a liability with an entity, and therefore should be treated as a possible recognition criterion.

In relation to Specific Matter for Comment 7(c):

(a) the AASB considers that the definition of a liability should be applicable to all types of obligations, with no distinction between obligations arising from exchange and non-exchange transactions (see the comments on exchange and non-exchange transactions in the covering letter); and

(b) whether a 'cannot realistically avoid' principle should be adopted is a recognition issue (because it associates an obligation with an entity). The AASB does not have a view on whether any and, if so, which of the three approaches identified in paragraph 3.28 should be preferred. The AASB notes that there is considerable overlap between the three approaches described in paragraph 3.28 and suggests that, if discussion of those approaches is retained in the IPSASB's ED on Elements and Recognition, the ED should contrast the approaches more clearly.

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?

Consistent with its comments on Specific Matter for Comment 3, the AASB considers that every liability of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that *identification* of a past transaction or other past event of the reporting entity should not be necessary for a liability to qualify for recognition. This is because the AASB agrees with the arguments in paragraph 3.40(b) and (c) of the CP, albeit in the context of recognition criteria for a liability rather than the definition of a liability (because a past transaction or other past event would be one way of associating a liability with a particular reporting entity).

Nevertheless, the AASB supports:

(a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that a liability of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while

(b) noting that the existence of a past transaction or other past event does not guarantee that a liability continues to qualify for recognition.

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 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?

In relation to Specific Matter for Comment 9(a), the AASB:

(a) considers that obligations to provide social benefits are liabilities that may qualify for recognition; but

(b) does not support depicting such obligations as 'perpetual obligations' because those obligations are continually settled and replaced with new obligations. Whilst those obligations may appear to be perpetual, in substance they are not. Another example of what might, inappropriately, be termed a perpetual obligation is the balance of employees' holiday leave entitlements.

In relation to Specific Matter for Comment 9(b), the AASB is of the view that the significance of whether an obligation is enforceable is a recognition issue rather than an issue affecting the definition of a liability.

A similar liability recognition issue the AASB recommends addressing is whether obligations should be unconditional in order to qualify for recognition. Whether an obligation is unconditional is a factor associating a liability with an entity, and therefore the AASB does not consider it to be an issue affecting the definition of a liability.

With regard to Specific Matter for Comment 9(c), the AASB considers that the significance of sovereign powers to cancel or modify obligations to other parties is a recognition issue rather than an issue affecting the definition of a liability. The AASB considers that assessments of whether particular liabilities qualify for recognition should be based on existing legislation.

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?

The AASB has not identified any additional characteristics that are essential to the development of the definition of a liability. Nor has it identified any other issues that need to be considered.

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?

The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities. It therefore supports the 'asset and liability-led approach' for identifying the elements of the statement of financial position and for determining the amounts of revenues and expenses, and endorses the comments in paragraphs 4.24 – 4.25 of the CP. Assets and liabilities are economic phenomena that have a dimension that is external to the entity. Deferred outflows and deferred inflows do not possess that quality.

An important reason why the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.

The AASB is concerned that the discussion in paragraphs 4.4, 4.6 and 4.22 of the CP about the 'revenue and expense-led approach' implies it is the only approach concerned with reporting current period financial performance. That approach defines revenues and expenses as "flows that relate to efforts of the current period" (paragraph 4.6). The logical implication is that the 'asset and liability-led approach' is concerned predominantly with reporting financial position, with reported financial performance being a by-product of that emphasis. However, the AASB considers that revenues and expenses comprise the financial effects of an entity's current period accomplishments and that the 'asset and liability-led approach' gives equal importance to the reporting of financial position and financial performance.

The AASB is also concerned with the focus of the 'revenue and expense-led approach' on achieving 'inter-period equity', and its adoption of the view that "the principle that taxpayers pay only for the services they receive, and not pass on obligations to future taxpayers, should underlie any measure of financial performance" (paragraph 4.21). The AASB is particularly concerned that this approach is based on a value judgement about who should pay for services rendered in a particular period and its direct link between funding decisions and recognition. If a decision were made that taxpayers of a different period should pay for current period services, should the recognition principles change

accordingly? The AASB thinks the recognition principles should not change, but is concerned that adopting the 'inter-period equity concept' may create a precedent for public policy decisions to determine recognition principles.

Whilst the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, it does not consider the 'revenue and expense-led approach' to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an 'asset and liability-led approach', if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A 'revenue and expense-led approach', properly developed and in a form the AASB would find acceptable, might complement an 'asset and liability-led approach'.

The AASB notes that the main objectives of the 'revenue and expense-led approach' are described as:

(a) attributing the costs of services to the period in which the services are provided; and

(b) attributing tax and other revenue to the period in which they were intended to finance the related costs (paragraph 4.8).

However, the AASB notes other unrelated notions are implicit in the CP's discussion of the 'revenue and expense-led approach'. For example, a 'likely realisation' notion seems to be applied to the recognition of gains and losses on assets [paragraph 4.31(d)].

When inflows of resources are not stipulated to be used to finance particular costs of services, attributing those inflows to particular costs of services would involve arbitrary allocations. For example, inflows of resources from general purpose taxes and grants without stipulations can be applied to meet costs of current period services, repay debts incurred in providing services in previous periods or meet the costs of providing services in future periods. Because cash is fungible, any allocation of those inflows to particular outflows would be arbitrary and intent-driven. Another illustration of this concern is Example 1 in paragraphs 4.13 – 4.15 of the CP. In that example, retention of the grant is conditional on construction of the library—that is, the inflow is required to finance an expenditure rather than an expense. However, under the revenue and expense-led approach, the grant revenue is recognised when the library is depreciated. Furthermore, it is unclear how the revenue and expense-led approach would be applied if a grant were stipulated as financing the purchase of a non-depreciable asset (e.g., land) or was in the form of 'seed money' for the acquisition of an asset that must be maintained and refurbished for an indefinite period. In these cases, would a deferred inflow be recognised indefinitely?

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?

In relation to Specific Matter for Comment 12(a), the AASB considers that transactions with residual/equity interests should be excluded from revenues and expenses.

In relation to Specific Matter for Comment 12(b), the AASB does not support restricting the definitions of revenues and expenses to specific types of activities associated with operations. Instead, the definitions of revenues and expenses should include inflows from all transactions and events other than transactions with residual/equity interests.

The AASB considers that the desire of some to limit the definitions of revenues and expenses to specific types of entity activities or events has more to do with display of financial information about components of broadly defined revenues and expenses than with the breadth of the definitions *per se*. Accordingly, the AASB considers that this issue should be considered more fully by the IPSASB, within the context of broad definitions, when it develops further the Presentation and Disclosure phase of its Conceptual Framework project.

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?

The AASB has not identified any other characteristics that are essential to the development of the definitions of revenues and expenses. Nor has it identified any other issues that need to be considered.

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?

In relation to Specific Matter for Comment 14(a), the AASB does not consider it appropriate to identify deferrals in the statement of financial position, for the reasons noted in the AASB's comments on Specific Matter for Comment 11.

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?

In relation to Specific Matter for Comment 15(a), the AASB would prefer that net assets/net liabilities were described as a residual interest rather than a residual amount. The AASB does not support treating net assets/net liabilities as necessarily being an ownership interest because, in some cases, such as local governments in Australia, there may not be an ownership interest in a public sector entity.

In relation to Specific Matter for Comment 15(b), the AASB supports the approach set out in paragraph 5.25(a) of the CP that defines net assets/net liabilities and treats any specific ownership interest as a sub-classification of net assets/net liabilities.

In relation to Specific Matter for Comment 15(c), the AASB has not identified any other issues or unique public sector considerations to address in relation to the concept of net assets/net liabilities.

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?

In relation to Specific Matter for Comment 16(a), the AASB is of the view that transactions with residual interest holders could, but would not necessarily, be defined as separate elements. This would depend on the wording of the definitions. However, it is important to define transactions with residual interest holders because reference is made to those transactions in existing definitions of revenues and expenses.

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?

As reflected in comments throughout this submission, the AASB is of the view that the recognition criteria should be:

(a) separate from definitions of the elements of financial statements; and

(b) neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in specifying the same recognition threshold for all assets and liabilities.

Specific Matter for Comment 18

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

The AASB supports the use of the same criteria for derecognition as for initial recognition. A corollary of the AASB's view that recognition criteria should be neutral (see comment above on Specific Matter for Comment 17) is that recognition criteria should apply equally to the initial recognition and subsequent recognition of an element. Derecognition is synonymous with treating an element as failing criteria for subsequent recognition.

Specific Matter for Comment 19

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

The AASB considers that recognition criteria should be separate and distinct requirements from the definitions of the elements of financial statements. This is consistent with the AASB's response to Specific Matters for Comment 4 and 9.

APPENDIX B

Other AASB Comments on the CP

Paragraphs	Comment
2.51(a)	The combination of 'right' and 'power' in this sentence is confusing. The AASB recommends that the IPSASB elaborates the distinction.
2.53	The AASB suggests rewording the last sentence of paragraph 2.53 to say "as with any assets, they would be subject to recognition criteria to determine whether they are recognised in the financial statements" instead of saying that "these rights would still have measurement hurdles to overcome".

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Paris, le 22 juin 2011

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

Dear Ms Fox,

I am writing on behalf of the French « Direction Générale des Finances Publiques » (DGFiP) to comment on the IPSASB Consultation Paper "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements" ('the CP').

We welcome the decision of the Board to issue a consultation on the elaboration of a conceptual framework for public entities.

Le directeur,
adjoint au directeur général des finances publiques

Vincent MAZAURIC

MINISTÈRE DU BUDGET
DES COMPTES PUBLICS
DE LA FONCTION PUBLIQUE
ET DE LA RÉFORME DE L'ÉTAT

French original version of our response to the CP "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"

Nous vous prions de bien vouloir trouver ci-après la réponse de la Direction générale des Finances publiques (DGFiP) sur le document de consultation susmentionné.

1. Actifs

Question 1:

(a) La définition d'un actif doit-elle couvrir tous les types d'avantages suivants, prenant la forme de :

(i) Potentiel de service

(ii) Flux net positif de trésorerie, et

(iii) Droits inconditionnels à recevoir des ressources ?

(b) Quels termes utiliser pour définir un actif :

(i) Avantages économiques et potentiel de service, ou

(ii) Avantages économiques ?

(a) La DGFiP considère que la définition d'un actif couvre les deux types d'avantages suivants : le potentiel de service et les flux nets positifs de trésorerie qu'il génère. En effet, le potentiel de service est nécessaire mais non suffisant pour couvrir la définition d'un actif, tout particulièrement du point de vue de sa valorisation.

Selon la DGFiP, la notion de droits inconditionnels à recevoir des ressources renvoie à la définition d'un actif financier tel que défini dans le § 11 c) de la norme IAS 32 « Instruments financiers : présentation » : *« Est un actif financier tout actif qui est (..) un droit contractuel :*

i) de recevoir d'une autre entité de la trésorerie ou un autre actif financier; ou

ii) d'échanger des actifs ou des passifs financiers avec une autre entité à des conditions potentiellement favorables à l'entité (…) »

Cet élément semble donc trop spécifique aux actifs financiers pour définir un actif de façon générale.

(b) Pour les raisons citées ci-dessus, il convient d'utiliser les termes « avantages économiques **et** potentiel de service » pour définir un actif.

Par exemple, l'Etat français n'a comptabilisé le spectre hertzien, pourtant préexistant, seulement lorsque celui a été révélé par l'existence de contrats de licences octroyés à des opérateurs privés, qui ont donné lieu à paiement de redevances.

Question 2:

(a) Quelle approche retenir pour associer un actif avec une entité spécifique :

(i) Contrôle

(ii) Risques et avantages, ou

(iii) Accès aux droits, y compris le droit de restreindre ou d'empêcher l'accès aux droits pour les tiers

(b) Le droit opposable aux bénéfices d'une entité ou sa capacité à empêcher, restreindre ou réguler l'accès des tiers crée-t-il un lien entre la ressource et l'entité?

(c) Existe-t-il d'autres éléments nécessaires, pour établir le lien entre un actif et une entité ?

(a) La DGFiP considère que l'approche *contrôle* doit être retenue pour associer un actif avec une entité.

En ce sens, la DGFiP privilégie la définition du contrôle telle qu'elle est définie dans le recueil des normes comptables de l'Etat et qui se caractérise par :

- La maîtrise des conditions d'utilisation du bien ;
- La maîtrise du potentiel de services et/ou des avantages économiques futurs dérivés de cette utilisation.

Le fait que l'entité publique supporte les risques et avantages afférents à la détention du bien constitue en outre une présomption de l'existence du contrôle mais peut ne pas être suffisant pour le caractériser.

Par exemple, dans le cas d'un contrat de partenariat public-privé où les risques sont partagés entre l'entité publique et le partenaire privé, l'analyse ne permet pas toujours de conclure sur la détention du contrôle.

(b) Le droit opposable aux bénéfices d'une entité ou sa capacité à empêcher, restreindre ou réguler l'accès des tiers, ne peut constituer à lui seul une présomption de lien entre la ressource et l'entité.

(c) Pour la DGFiP, il n'existe pas d'autres éléments nécessaires pour établir le lien entre un actif et une entité.

Question 3:

Est-il suffisant de dire qu'un actif est une ressource « permanente », ou un évènement antérieur doit-il être intervenu ?

Le fait qu'une ressource soit « permanente » n'est pas suffisant pour définir un actif. Ainsi, le spectre hertzien qui est ressource « permanente », n'a été reconnu en tant qu'actif qu'au moment de sa révélation par un contrat qui a permis de le valoriser de façon fiable.

Un parallèle peut être fait avec une marque générée en interne par une entreprise. Cette marque ne sera pas reconnue, ni évaluée en tant qu'actif incorporel, à moins que ne soit intervenue une transaction qui ait permis de la valoriser.

Ainsi, la DGFiP considère qu'un fait générateur est nécessaire pour permettre l'identification et la comptabilisation d'un actif.

Question 4:

Critère d'identification et de mesure mis à part, les droits et pouvoirs inhérents aux entités publiques, comme ceux associés au pouvoir de lever taxes et impôts, deviennent-ils des actifs seulement lorsque ces pouvoirs sont exercés, ou existe-t-il un évènement intermédiaire plus adapté ?

La DGFiP considère que les droits et pouvoirs inhérents aux entités publiques, comme ceux associés au pouvoir de lever taxes et impôts, deviennent des actifs seulement lorsque ces pouvoirs sont exercés. Cependant, ces droits et pouvoirs doivent également être évaluables.

En conséquence, la même logique que celle retenue pour la comptabilisation et la valorisation du spectre hertzien, s'applique dans la mesure où le droit de l'entité a été remis temporairement et contre flux financier à un tiers, permettant son évaluation et son inscription au bilan de l'Etat.

Question 5:

(a) Existe-t-il des caractéristiques additionnelles qui n'auraient pas été identifiées que vous estimez essentielles à la définition d'un actif ?

(b) Existe-t-il d'autres considérations, en particulier spécifiques au secteur public, qu'il vous semble nécessaire d'analyser pour définir le concept d'actifs ?

(a) La DGFiP n'a pas identifié de caractéristiques additionnelles pour définir un actif.

(b) En raison de ses missions régaliennes et de régulateur économique et social, le patrimoine de l'Etat et d'autres collectivités publiques comporte des actifs de nature spécifique propres à l'accomplissement de ces missions et pour lesquels il n'existe pas nécessairement de références de marché, ce qui nécessite la mise en œuvre de méthodes d'évaluation adéquates.

2. Passifs

Question 6:

(a) La définition d'un passif doit-elle couvrir tous les types d'obligations suivantes ?

(i) Obligation de transférer des avantages, définis comme des flux de trésorerie ou autres actifs, ou de fournir des biens et services dans le futur.

(ii) Obligations implicites, y compris passifs éventuels aux fins d'assurance contre le risque.

(iii) Obligation d'exécution.

(iv) Obligation de fournir accès ou de renoncer à une ressource future.

(b) L'identification d'une date d'extinction est-elle une caractéristique essentielle du passif ?

(a) La DGFiP considère que la définition d'un passif doit couvrir l'obligation de transférer des avantages, définis comme des flux de trésorerie ou autres actifs.

En revanche, un passif ne peut en aucun cas être assimilé à une obligation de fournir des biens et services dans le futur, ce qui inclurait, pour des entités publiques, les obligations implicites telles que le droit à l'éducation, à la sécurité ou encore à la santé, qui ne correspondent pas à la définition d'un passif.

En effet, le secteur public n'est tenu de fournir des biens, services et transferts à la collectivité lors des exercices futurs que si :

- Il dispose des financements fournis substantiellement par la collectivité sous forme d'impôts lors de ces mêmes exercices futurs ; et

- Les bénéficiaires présumés de ces biens, services et transferts satisfont les critères d'attribution de ceux-ci.

Les missions du secteur public s'inscrivant dans une logique de pérennité, il est présumé un lien entre la délivrance de ces prestations par les entités publiques et leur financement par l'impôt.

Dès lors, la DGFiP considère qu'aucun passif n'est constaté au titre de l'obligation de fournir des biens et services relatifs à des exercices futurs.

L'identification d'un passif requiert également l'existence d'une obligation issue d'un fait générateur passé pouvant être matérialisé par un acte attributif.

En conséquence, la DGFiP écarte les obligations implicites du périmètre des passifs.

La DGFiP considère également que l'obligation d'exécution (« performance obligation ») n'entre pas dans le champ d'application des passifs.

L'obligation de fournir accès ou de renoncer à une ressource future ne répond pas, selon la DGFiP, à la définition d'un passif qui se matérialise nécessairement par une sortie de ressources, comme le précise la norme IPSAS 19 « Provisions, passifs éventuels et actifs éventuels » § 31 : *« Pour qu'un passif réunisse les conditions requises pour être comptabilisé, il faut non seulement qu'il existe une obligation actuelle mais également qu'une sortie de ressources représentatives d'avantages économiques ou d'un potentiel de service soit probable pour régler cette obligation. »*

(b) La DGFiP considère que la date d'extinction ne constitue pas une caractéristique essentielle de la définition d'un passif.

Question 7:

(a) La possibilité d'identifier un bénéficiaire tiers, externe à l'entité, doit-elle être considérée comme un élément essentiel pour définir un passif, ou faire partie des discussions supplémentaires ?

(b) Considérez-vous que l'absence d'alternative à l'obligation est une caractéristique essentielle d'un passif ?

(c) Laquelle des trois approches identifiées au paragraphe 3.28[1] soutenez-vous pour déterminer si une entité dispose d'une réelle possibilité de se soustraire à son obligation ?

(a) La DGFiP considère que la possibilité d'identifier un bénéficiaire tiers individualisé, externe à l'entité, ne constitue pas un élément essentiel pour définir un passif.

(b) La DGFiP considère que l'impossibilité de pouvoir se soustraire à l'obligation est une caractéristique essentielle d'un passif.

Cet élément écarte de ce fait les obligations implicites du champ d'application des passifs.

Ainsi, le fait qu'il existe une forte probabilité que les dispositifs d'intervention soient reconduits lors des exercices futurs, faisant naître une attente légitime des citoyens, ne répond pas à la définition d'un passif caractérisé par les critères suivants :

[1] Trois approches différentes sont identifiées au paragraphe 3.28 pour définir l'obligation :
(*a) Enforceable contractual, constructive, and equitable obligations.*
(b) Enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions.
(c) Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw.

- Impossibilité pour l'entité publique de pouvoir se soustraire à la sortie de ressources nécessaire à l'extinction de l'obligation ;
- Satisfaction des critères d'attribution.

(c) La DGFiP exclut :

- la deuxième approche dans la mesure où l'existence d'une contrepartie directe n'est pas une caractéristique essentielle de la définition d'un passif pour une entité publique. Les missions régaliennes et de régulateur économique et social de l'Etat se caractérisent par la prédominance des transactions sans contrepartie directe (« non-exchange transactions »).
- la troisième approche dans la mesure où, selon la DGFiP, l'attente légitime des citoyens ne crée pas d'obligation pour une entité publique pour les raisons évoquées ci-dessus.

Question 8:

Est-il suffisant de dire qu'un passif est une obligation « permanente », ou un évènement antérieur doit-il être intervenu ?

Pour les raisons évoquées ci-dessus, une obligation permanente n'est pas constitutive d'un passif matérialisé par un acte attributif et la satisfaction des critères d'attribution.

Question 9:

(a) Critère d'identification et de mesure mis à part, les obligations des entités publiques, comme celles associées à leurs fonctions et à leurs responsabilités de gouvernement, sont-elles des obligations perpétuelles ou deviennent-elles des obligations uniquement lorsqu'elles ont un caractère exécutoire, ou existe-t-il une étape intermédiaire à considérer ?

(b) Le caractère exécutoire de l'obligation est-il une caractéristique essentielle d'un passif ?

(c) La définition d'un passif doit-elle inclure une hypothèse sur le rôle du pouvoir souverain, par exemple une référence à la situation légale ou réglementaire à la date d'arrêté ?

(a) (b) Comme indiqué dans notre réponse à la question 6 (a), les obligations des entités publiques, comme celles associées à leurs fonctions et à leurs responsabilités de gouvernement, ne sont pas considérées comme des passifs. Le fait que l'obligation revête un caractère exécutoire constitue une caractéristique essentielle d'un passif, mais ce dernier est comptabilisé dès que les conditions incombant au bénéficiaire sont remplies, entraînant l'impossibilité pour l'entité publique de pouvoir se soustraire à la sortie de ressources nécessaire à l'extinction de l'obligation.

(c) Un passif nécessite la satisfaction des critères d'attribution, confirmée par un acte attributif (contrat ou décision).

Question 10:

(a) Existe-t-il des caractéristiques additionnelles qui n'auraient pas été identifiées que vous estimez essentielles à la définition d'un passif ?

(b) Existe-t-il d'autres considérations, en particulier spécifiques au secteur public, qu'il vous semble nécessaire d'analyser pour définir le concept de passifs ?

(a) La DGFiP n'a pas identifié de caractéristiques additionnelles essentielles à la définition d'un passif.

(b) Du fait de ses missions régaliennes et de régulateur économique et social, l'entité publique présente la particularité d'avoir de nombreux engagements pluriannuels.

Ces engagements ne seront comptabilisés en tant que passifs de l'exercice seulement si les conditions d'attribution sont satisfaites au cours de cet exercice et donc qu'il n'est pas possible pour l'entité publique de s'y soustraire.

Dans le cas contraire, ces engagements donneront lieu à une information en annexe.

3. Exécution financière : Produits et charges

Question 11:

(a) Les produits et les charges doivent-ils être déterminés en identifiant quels flux sont affectés à la période en cours (dérivé d'une approche basée sur les charges et produits) ou par les variations d'actifs net définis comme des variations de ressources et obligations durant la période actuelle (dérivé d'une approche basée sur les actifs et les passifs) ?

(b) Quels sont les éléments essentiels à l'appui de l'approche retenue ?

a) Les produits et les charges doivent être déterminés en identifiant quels flux sont rattachables à la période en cours.

b) L'approche par les flux répond aux objectifs des états financiers qui consistent à donner l'information sur l'utilisation effective des ressources levées durant l'exercice. En effet, il convient que les utilisateurs premiers des états financiers puissent suivre l'utilisation faite par l'administration, des contributions qu'ils autorisent par l'intermédiaire du Parlement et des autres organes représentatifs.

Cette approche par les flux, qui s'inscrit – comme l'approche bilantielle – dans le cadre de la comptabilité en droits constatés, doit rester entièrement compatible avec une vision patrimoniale de l'entité publique, dans la mesure où les flux enregistrés en compte de résultat viennent enrichir mécaniquement les éléments patrimoniaux du bilan. Une présentation trop théorique de la question risquerait de créer une opposition entre les approches, ce qui serait inapproprié et pourrait réduire l'approche par les flux à une comptabilité de caisse.

Question 12:

(a) Les transactions qui ont un impact en capitaux propres ou sur les intérêts résiduels (part groupe) doivent-elles être exclues des produits et charges ?

(b) Doit-on limiter la définition des produits et des charges aux activités liées à des opérations (tout en décrivant ces dernières) ?

(a) Selon IAS 18 « Produits des activités ordinaires » §7 : *« Les produits des activités ordinaires sont les entrées brutes d'avantages économiques intervenues au cours de la période dans le cadre des activités ordinaires de l'entité lorsque ces entrées contribuent à des augmentations de capitaux propres autres que les augmentations relatives aux apports des participants aux capitaux propres. »*

En conséquence, la DGFiP considère que les variations de l'actif net qui sont indépendantes de l'activité de l'entité doivent être exclues des produits ou des revenus.

Pour l'Etat, par exemple, le patrimoine immobilier non spécifique est comptabilisé à la valeur de marché et les variations de valeur sont comptabilisées en écart de réévaluation.

Le même raisonnement s'applique aux charges des activités ordinaires.

(b) La DGFiP est d'accord sur le fait que la définition des produits et des charges doit être limitée aux activités liées à des opérations courantes.

Il y a lieu de préciser que l'activité des entités publiques se distingue de celle de l'entreprise par la nature de leurs missions régaliennes et de régulateur économique et social.

Question 13:

(a) Existe-t-il des caractéristiques additionnelles qui n'auraient pas été identifiées que vous estimez essentielles à la définition des produits et des charges ?

(b) Existe-t-il d'autres considérations, en particulier spécifiques au secteur public, qu'il vous semble nécessaire d'analyser pour définir les produits et les charges ?

(a) La DGFiP n'a pas identifié de caractéristiques additionnelles essentielles à la définition des produits et des charges.

(b) Comme indiqué ci-dessus, la DGFiP considère que l'activité de l'entité publique se distingue de celle de l'entreprise par la nature de ses missions régaliennes et de régulateur économique et social.

4. Autres éléments

Question 14:

(a) Les éléments différés doivent-ils être identifiés dans les états financiers ?

(b) Si oui, quelle est l'approche la mieux adaptée ? Les flux différés entrants et sortants devraient être :

(i) Définis comme des éléments séparés

(ii) Inclus comme une sous-catégorie d'actifs et de passifs

(iii) Inclus comme une sous-catégorie d'actifs nets et de passifs nets

(c) Si ces éléments sont définis comme des éléments séparés, les définitions du paragraphe 5.8 sont-elles adaptées ?

(a) La DGFiP considère que les éléments différés doivent être identifiés dans les états financiers, dans des comptes spécifiques qui peuvent être des comptes de régularisation.

(b) Il convient de définir les éléments différés comme des éléments séparés car ils ne répondent pas à la définition des actifs et des passifs.

(c) Les définitions du paragraphe 5.8 mériteraient un éclaircissement pour pouvoir y répondre.

Question 15:

(a) L'actif net ou passif net doit-il être considéré comme un solde résiduel, un intérêt résiduel ou un intérêt d'actionnaire ?

(b) Le concept d'intérêts d'actionnaires résiduels - comme ceux qui se rapportent aux participations minoritaires dans les entreprises publiques – doit-il faire partie des éléments de définition ?

(c) Existe-t-il d'autres considérations, en particulier spécifiques au secteur public, qu'il vous semble nécessaire d'analyser pour définir les concepts d'actif net ou de passif net ?

(a) (b) Les notions de capitaux propres et d'intérêt résiduel ne sont pas applicables aux entités du secteur public en France. Ainsi, l'actif net ou le passif net doivent être considérés comme un solde résiduel.

(c) Selon la DGFiP, il n'existe pas d'autres considérations, spécifiques au secteur public, nécessaires à analyser pour définir les concepts d'actif net ou de passif net.

Question 16:

(a) Les transactions avec intérêts résiduels doivent-elles être définies comme des éléments séparés ?

(b) Si c'est le cas, quelles sont les caractéristiques essentielles nécessaires à leur définition ?

La DGFiP considère qu'il conviendrait de clarifier les objectifs visés par ce point, ainsi que la notion de transactions avec intérêts résiduels dans le cadre du secteur public.

5. Eléments d'identification

Question 17:

(a) Les critères de comptabilisation doivent-ils répondre aux éléments d'incertitudes par la mise en place de seuils, ou est-il préférable d'obtenir un jugement neutre permettant de confirmer par tous moyens l'existence des éléments à comptabiliser à la date de reporting; ou peut-on baser l'approche sur la capacité de mesure ?

(b) Si vous êtes en faveur de l'approche par les seuils, doit-on prévoir des seuils identiques pour les actifs et les passifs ? Si oui, quels seraient-ils ? Si non, quel seuil pour les actifs, quel seuil pour les passifs ?

Compte-tenu de la définition des actifs et des passifs qui se fonde notamment sur le caractère fiable de l'évaluation, la DGFiP considère que la notion de seuil n'est pas pertinente.

Le caractère significatif ou pas d'un élément est l'affaire du jugement de l'entité. Il ne doit pas être énoncé dans le référentiel comptable.

Question 18:

Peut-on utiliser les mêmes critères pour la décomptabilisation que pour la comptabilisation initiale ?

La DGFiP considère que les mêmes critères doivent s'appliquer tant pour la comptabilisation initiale que pour la décomptabilisation.

Question 19:

Les critères de comptabilisation font-ils partie intégrante de la définition des éléments ou sont-ils des éléments distincts?

Selon la DGFiP, les critères de comptabilisation sont des éléments distincts.

English version of our response to the CP "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"

You will find below our detailed response to the Consultation Paper ("the CP").

1. Assets

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) The DGFiP considers that the definition of an asset covers both types of following benefits : service potential and net cash inflows that it generates. Indeed, service potential is necessary but not sufficient to cover the definition of an asset, in particular for its value.

According to the DGFiP, the term of unconditional rights to receive resources sends back to the definition of a financial asset such as defined in § 11 c) of the standard IAS 32 "Financial instruments: presentation" : *"A financial asset is any asset that is (..) a contractual right:*

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity (…)".

This element thus seems too specific in financial assets to define an asset in a general way.

(b) For the fore-mentioned reasons, it is more advisable to use the terms « economic benefits **and** service potential" to define an asset.

For example, the French central government recorded the frequency spectrum, nevertheless pre-existent, only when that was revealed by the existence of license agreements granted to private operators, who gave rise to payment of royalties.

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) The DGFiP considers that the control approach must be held to associate an asset with an entity.

This way, the DGFiP privileges the definition of the control such as it is defined in the French central government accounting standards and which is characterized by:

- the ability to govern the conditions for using the asset;

- the ability to govern the service potential and/or future economic benefits derived from using the asset.

The fact that the central government bears the risks and expenses incurred in holding the asset shall also constitute a presumption of control, but cannot be sufficient to characterize it.

For example, in the case of a public-private partnership contract where the risks are shared between the public sector entity and the private partner, the analysis does not always allow to conclude on the control.

(b) An entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access cannot establish in itself an assumption of the link between the entity and an asset.

(c) For the DGFiP, there are no additional requirements necessary to establish a link between the entity and 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?

The fact that an asset is a « present » resource is not sufficient to define an asset. So, the frequency spectrum which is "permanent" resource, was recognized as asset that at the time of its revelation by a contract which allowed to value it in a reliable way.

A parallel can be made with a brand generated internally by a company. This brand neither will be recognized, nor estimated as immaterial asset, unless this brand is acquired in a business combination.

So, the DGFiP considers that a past event is necessary to allow the identification and the recording of 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?

The DGFiP considers that the rights and powers inherent to the public entities, such as those associated with the power to tax and levy fees, become assets only when these powers are exercised. Nevertheless, these rights and powers must also be assessable.

Consequently, the same logic as that held for the recording and the valuation of the frequency spectrum, applies as far as the right of the entity was temporarily handed and against financial flow to a third, allowing its evaluation and its entry in the balance sheet of the central government.

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?

(a) The DGFiP did not identify additional characteristics to define an asset.

(b) Because of its sovereign missions and its missions of economic and social regulator, the assets of the central government and the other public entities contain specific assets appropriate for the fulfillment of these missions and for which there are inevitably no references to market such as in the trade sector, that requires the implementation of appropriate valuation methods.

2. Liabilities

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) The DGFiP considers that the definition of a liability has to cover the obligation to transfer benefits, defined as cash flows or other assets.

On the other hand, a liability can never be likened to an obligation to supply goods and services in the future, what would include, for the public entities, the implicit obligations such as the right to education, to security or also to health, which do not correspond to the definition of a liability.

Indeed, the public sector has to supply goods, services and transfers to the community during the future periods only if :

- it has the financing which is substantially supplied by the community through taxes during these same future periods; and

- the presumed beneficiaries of these goods, services and transfers satisfy the attribution criteria for these.

The missions of the public sector joining a logic of perpetuity, a link is presumed between the delivery of these services by the public sector entities and their financing by the tax.

From then on, the DGFiP considers that no liability has to be recorded to account for the obligation to supply the goods and the services relating to future periods.

The identification of a liability also requires the existence of an obligation stemming from a past event which can be materialized by an act of assignment.

Consequently, the DGFiP removes the implicit obligations from the scope of the liabilities.

The DGFiP also considers that the performance obligation does not enter into the scope of the liabilities.

The obligation to provide access or to give up a future resource does not answer, according to the DGFiP, the definition of a liability which is inevitably materialized by an outflow of resources, as specified in IPSAS 19 "Provisions, contingent liabilities and contingent assets" § 31: *"For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation."*

(b) The DGFiP considers that the settlement date is not an essential characteristic of the definition 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[2] do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

(a) The DGFiP considers that the possibility of identifying an individualized third party beneficiary external to the entity, does not constitute an essential element to define a liability.

(b) The DGFiP considers that the impossibility to be able to avoid the obligation is an essential characteristic of a liability.

This element excludes from this fact the implicit obligations from the scope of the liabilies.

So, the fact that there is a strong probability that the intervention plans are renewed during the future periods, creating a justifiable expectation amongst the citizens, does not answer the definition of a liability characterized by the following criteria:

- Impossibility for the public entity of being able to avoid the outflow of resources necessary to settle the obligation;
- Satisfaction of the attribution criteria.

(c) The DGFiP excludes:

- The second approach as far as the existence of a direct counterpart is not an essential characteristic of the definition of a liability for a public entity. The sovereign missions and the missions of economic and social regulator of the central government are characterized by the predominance of non-exchange transactions.
- The third approach as far as, according to the DGFiP, the justifiable expectation of the citizens does not create an obligation for a public entity for the reasons mentioned above.

[2] The paragraph 3.28 identifies three different approaches to define the obligation :
(*a) Enforceable contractual, constructive, and equitable obligations.*
(b) Enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions.
(c) Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw.

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?

For the reasons mentioned above, a permanent obligation is not essential of a liability materialized by an act of assignment and the satisfaction of the attribution criteria.

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) (b) As indicated in our answer to the question 6 (a), the obligations of the public entities, such as those associated with their functions and with their responsibilities of government, are not considered as liabilities. The fact that the obligation takes on an enforceable character constitutes an essential characteristic of a liability. Nevertheless, this liability is recorded as soon as the attribution conditions are filled by the beneficiary, implying the impossibility for the public entity of being able to avoid the outflow of resources necessary for the settlement of the obligation.

(c) A liability requires the satisfaction of the attribution criteria, confirmed by an act of assignment (contract or decision).

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) The DGFiP did not identify any essential additional characteristics to define a liability.

(b) Because of its sovereign missions and its missions of economic and social regulator, the public sector entity presents the specificity of having numerous multiannual commitments.

These commitments will be recorded as liabilities of the accounting period only if the attribution conditions are satisfied during this period and thus it is not possible for the public entity to escape it.

Should the opposite occur, these commitments will give rise to an information in the notes of the financial statements.

3. Financial performance : Revenue and Expense

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) Revenues and expenses should be determined by identifying which inflows and outflows are "applicable to" the current period.

b) The revenue and expense-led approach answers the objectives of the financial statements which consist in giving the information about the effective use of the resources raised during the period. Indeed, it is advisable that financial reporting primary users can follow the use made by the administration, of the taxes which they authorize through the Parliament and the other representative organs.

This approach, which joins – as the asset and liability-led approach – within the framework of the accrual accounting, has to remain completely compatible with a patrimonial vision of the public entity. Indeed, revenue and expense recorded in income statement come to enrich mechanically the patrimonial elements of the balance sheet. A too theoretical presentation of the question would risk to create an opposition between the approaches, which would be inappropriate and could reduce the revenue and expense-led approach to a cash basis accounting system.

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) According to IAS 18 « Revenue » § 7 : *« Revenue is the entry of gross economic benefits during the period arising in the course of ordinary activities of an enterprise, provided that such entry would lead to an increase in equity that is not related to contributions from owners that heritage. »*

Consequently, the DGFiP considers that the variations of the net asset which are independent from the normal activity of the entity must be excluded from revenue.

For the central government, for example, the non-specialised land and buildings are recorded at their market value and their positive and negative revaluations are recognised in revaluation surplus.

The same reasoning applies to the expenses arising in the course of ordinary activities.

(b) The DGFiP agrees on the fact that the definition of revenue and expense must be limited to the activities associated with current operations.

It takes there place to specify that the activity of the public sector entities distinguishes itself from that of the private sector by the nature of its sovereign missions and its missions of economic and social regulator.

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?

(a) The DGFiP did not identify any additional characteristics essential to the definition of revenues and expenses.

(b) As indicated above, the DGFiP considers that the public sector entity's activity distinguishes itself from that of the private sector by the nature of its sovereign missions and its missions of economic and social regulator.

4. Other Potential Elements

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) The DGFiP considers that deferred elements must be identified in financial statements, in specific accounts which can be regularization accounts.

(b) It is advisable to define differed elements as separate elements because they do not answer the definition of assets and liabilities.

(c) The definitions set out in paragraph 5.8 would deserve a clarification to be able to answer it.

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 noncontrolling 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) (b) The notions of ownership interest and residual interest are not applicable to the entities of the public sector in France. So, net assets or net liabilities must be considered as a residual amount.

(c) According to the DGFiP, there are no other considerations, specific to the public sector, necessary to analyse to define the concepts of net assets or net liabilities.

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?

The DGFiP considers that it would be advisable to clarify the objectives aimed by this point, as well as the notion of transactions with residual interests within the framework of the public sector.

5. Recognition

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?

Considering the definition of assets and liabilities which bases itself in particular on the reliable character of the evaluation, the DGFiP considers that the notion of threshold is not relevant.

The significant character or not of an element is the affair of the entity judgment. It must not be expressed in the accounting standards.

Specific Matter for Comment 18

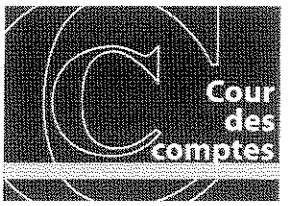
Do you support the use of the same criteria for derecognition as for initial recognition?

The DGFiP considers that the same criteria have to apply both for initial recognition and for derecognition.

Specific Matter for Comment 19

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

According to the DGFiP, the recognition criteria are distinct elements.



Advisory Committee for the Standardisation of Public Accounts

The Chairman

Paris, le 15 june 2011

Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Government, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.

Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.

As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation.

Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency

between variations in the amount of rights and obligations and the expenses and income given in the income statement.

The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.

Christian BABUSIAUX

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"
(Phase I)

I. *"Role, Authority and Scope of the Conceptual Framework"*

I.A "*Authority of the Conceptual Framework*" (par. 1.2 & BC1.1 to BC 1.3)

The understanding is that the authority of the conceptual framework is no greater than that of IPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.

In principle, the French Court of Auditors has no objection but would like to recall its stance on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B "*Scope of Financial Reporting*" (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of "*General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the EU…).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of the conceptual framework (*definition, recognition and measurement*) and in the future section 4 covering the presentation of reporting statements, are relevant only for the drawing up of

standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework" (§ 1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

- the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, *"...who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes"* makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizens/beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);

- it is therefore a moot point – putting it mildly – to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.8). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;

- the bottom line is that under these conditions, GPFR must be for both citizen/tax-payers/service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) may or should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;

- this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

II.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 (*service delivery achievements*) 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency.

Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale of priority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5).

Firstly, this calls for two general comments:

- even though they interlap, these qualities are different to those attributed to financial statements in the strict sense of the terms by the standard IPSAS 1 (appendix), which are "understandability", "relevance", "reliability" (a quality that includes "faithful

representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see further on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;

- secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term. But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.

Some of these qualitative characteristics call for a number of observations:

- relevance (3.6 & BC 3.5):

In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.

- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :

This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).

Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.

Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.

In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of

caution. Paragraph 3.15 should be reinforced in this respect, and the same should apply to 3.16 on the question of estimations.

- understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle
- timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
- comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
- credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):

The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.

III-B "*Constraints on Information Included in General Purpose Financial Reports*"

The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).

IV. "*The Reporting Entity and Group Reporting Entity*"

The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).

It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.

Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities "*whose activities it can direct for its benefits, including those which expose it to a financial burden or loss*". This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf. on this point the response from the Court of Auditors to consultation document N°2).

The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (BC 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.

The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.

Finally, in this particular area we cannot ignore the requirements of the EU for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"
(Phase II)

Introduction

This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity.

There are two directly opposed cardinal models on this subject:

- a so-called "flow" model in which fiscal year expenses and income and the "financial performance"[1] of a public entity are measured, essentially based on flows of cash without however these flows being totally blended;
- a so-called "resources and obligations" model where the fiscal year expenses and income are charged more directly against variations in assets and liabilities.

This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document.

Flow Model and the Resources & Obligations Model

The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting:

- Central government;
- Regional and local government;
- Social security.

Presentation of the current context in France: accounting systems for Central Government, Social Security and Regional and Local Government

In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rules that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures.

[1] Under IPSAS standards, the income statement is referred to as "statement of financial performance" and is presented like the income statement for a business firm (income – expenses = profit), as opposed to the table for ascertaining the fiscal year balance for the French State, resulting from the difference between net regal income and net expenses. In this respect, the "French-style" income statement is very similar to that of the US Federal Government.

Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules.

Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law.

Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers.

Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints.

The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence.

A issue to be taken into account: transparency of information

Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries.

As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances.

The drawbacks of an approach based on a single model

While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it*, is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and IFRS standards.

From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private.

The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected.

We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations.

Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement.

All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.

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?

Answer to items (a) and (b):
Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.

From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions…), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered

over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation.

Equally cf. answer to Question No. 4.

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?

Answer:

The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors.

The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and stock holdings (specific description of control of an entity by another), on the other hand.

The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets.

More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that *benefits* from the service potential of these assets, even though it is the guarantor (custodian).

Therefore, the two approaches are complementary.

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?

Answer:
The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).

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?

Answer:
The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the annual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year.

According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.

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?

Answer:
No.

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?

Answer:

(a) In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorisation model.
Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future.
Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable. With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party.
By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified as the "beneficiary" of the said obligation.
(b) Specification of the due date is not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).

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?

Answer:
(a) Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.
(b) No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).
(c) Cf. answer to Question 10 hereinafter.

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?

Answer:
A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.

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?

Answer:

(a) The legal character or an obligation must be a determining criterion, which implies that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.

(b) No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.

(c) Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.

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?

Answer:
The legal character of an obligation is an essential factor.

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?

Answer:
The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.

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?

Answer:

(a) This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.
(b) To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.

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?

Answer:

(a) No.
(b) No.

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?

Answer:

(a) Yes.
(b) These items ought to be considered as assets and liabilities following the preference for the balance sheet approach retained by the Court of Auditors.

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 noncontrolling 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?

Answer:

(a) The answer will depend on the nature of the entity. For a centralised State, the difference between assets and liabilities will be a residual amount, considering the lack of recognition of sovereignty assets. For other public entities, it may refer to a proprietary interest.
(b) Yes, for the entities concerned.
(c) No.

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?

Answer:
This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recognition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recognition in the form of capital investments.

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?
(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?

Answer:

(a) The recognition of an asset and a liability should only be carried out where its measurement is reliable.

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

Answer:
Yes.

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

Answer:

The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.

Reply to IPSAS Board Exposure Draft

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"
(Phase III)

Specific Matter for Comment 1:
Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Answer:
The answer will be determined by the views one has of the financial statements of the public entity. In the Court's opinion, these financial statements must first and foremost provide a faithful account of the situation of its assets, including revenues and expenses generated by the fluctuation in assets and liabilities that account for the said situation.

Consequently, it considers that, within the conceptual framework, it would be appropriate to identify the salient factors in order to work out suitable methods to measure the different assets and liabilities of the public sector, rather than identifying a particular method for a specific category of assets or liabilities.

As a result, it reckons that the selection in principle of a single valuation method or a single valuation approach must be ruled out.

Specific Matter for Comment 2:
If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases
(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Combinations of Bases/Approach
(d) Deprival value.
(e) Historical cost and market value.
(e) Historical cost and market value.
(g) Historical cost, replacement cost, and market value.

Others
(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

Answer:

In keeping with the answer to Point No. 1, the Court feels there is a need for the conceptual framework to retain the most flexible combination of methods possible, combining historical cost, replacement cost and market value, to take into account the very broad diversity, and sometimes, the specificity, of the assets and liabilities to be measured in the public entities. This specificity may derive from the lack of acquisition cost, the absence of a market, the inherent nature of the asset or liability, or the indefinite character of the subsequent holding period of the asset or liability by the public entity. In the conceptual framework, the selection of any of the methods to measure any of the assets or liabilities will be determined by the salient factors identified in the introduction.

As it stands, the Court considers that within the conceptual framework, there is no need to formally establish a hierarchy amongst methods that address different problems. It reckons that, as concerns significant assets or liabilities, where there is a market value, but which market value it does not consider the most salient measurement method, provision should be made to present this as an appendix with a view to properly informing the reader of the financial statements. This applies especially to financial liabilities and expenses.

Specific Matter for Comment 3:
The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Answer:
According to the Court, the respective strengths and weaknesses of the different asset and liability measurement methods are presented in a comprehensive, fair and balanced manner in the paper.

This notwithstanding, the Court equally points out, in view of the presentation of the deprival value approach, that the said approach is not too relevant to liabilities. It should therefore be discarded as a single and holistic approach within the conceptual framework.

Specific Matter for Comment 4:
In your view, should:
(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and
(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

Answer:

a) The Court reckons that the own credit risk should not be dissociated from the other measurement items in the initial recognition of a financial liability.

From the outset, the Court shares the view that an objective measurement of own credit risk would be difficult to carry out and would not meet the reliability criterion.

Secondly, a vast quantity of the financial liabilities of public entities, especially Governments, is made up of borrowings, for which the most relevant measurement basis is the amortised cost. Whereas this measurement method requires that the liabilities should be recorded at their fair value at the time of their initial recognition, which value represents the value of the consideration received and includes the effect of the entity's own credit risk. Consequently, the neutralisation of the latter item will be inconsistent with the measurement of the said liabilities at the fair value of the consideration received in their initial recognition.

b) The Court equally feels that a differentiation ought to be established between liabilities measured at the market value and liabilities measure using the other possible measurement bases, namely historical cost, cost of fulfilment, assumption price, cost of release.

For liabilities measured using a basis other than the market value, the Court considers that own credit risk fluctuations should not affect the financial statements. The main reason for this is the paradox that may arise from a consideration of these fluctuations and the interpretation difficulties that user of the financial statements may equally encounter. As recalled in the consultation paper (Appendix A § A6), a decline in the entity's credit risk would actually help it to post a profit where such an option is retained.

As concerns the liabilities measured at the market value, the Court considers that there is no need to recommend a "restatement" of the own credit risk fluctuation included in the market price. On the one hand, such a restatement will encounter the same difficulties mentioned above as concerns obtaining reliable and objective information. On the other hand, such a method would not help to measure the instruments concerned at their comprehensive market value when recognising them subsequently.

Specific Matter for Comment 5:
In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:
(a) Only the service potential relating to the existing use; or
(b) Include the incremental value relating to its possible sale for an alternative use?

Answer:
The conceptual framework should help to ensure the consistency of the normative system based on a simple idea: provide an account as faithful as possible of the situation of the public entity's assets at the closing of the accounts, i.e. when recording the rights and obligations generated over the fiscal year at their relevant value based on their use/consumption at that selfsame time.

In this regard, changing a measurement method based on a projected, expected or scheduled change in the use of an asset should be ruled out.

Where an initial decision is made, whereas the accounts are yet to be closed, to embark on the plan to transfer a significant asset, following a subsequent implementation timetable, it will be most appropriate to include as an appendix an assessment of the proceeds expected from the projected transfer.

Advisory Committee for the Standardisation of Public Accounts
The Chairman
Paris, Ie 15june 2011
Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Goverument, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.
Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.
As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation. Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency
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between variations in the amount of rights and obligations and the expenses and income given in the income statement
The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.
Christian **BABUSIAUX**

Response to the exposure draft from the IPSAS Board
"Conceptual Frameworkfor General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"
(phase II)

Introduction
This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity.
There are two directly opposed cardinal models on this subject:
a so-called "flow" model in which fiscal year expenses and income and the "financial performance?' of a public entity are measured, essentially based on flows of cash without however these flows being totally blended;

a so-called "resources and obligations" model where the fiscal year expenses and income are charged more directly against variations in assets and liabilities.
This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document.

Flow Model and the Resources & Obligations Model

The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting:
Central government;
Regional and local government;
Social security.
Presentation of the current context in France: accounting svstems for Central Government, Social Security and Regional and Local Government
In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rnles that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures.

1 Under IPSAS standards, the income statement is referred to as "statement offinancial performance" and is presented like the income statement for a business firm (income - expenses ` profit), as opposed to the table for ascertaining the fiscal year balance for the French State, resulting from the difference between net regal income and net expenses. In this respect, the "French-style" income statement is very similar to that ofthe US Federal Government.

Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules.
Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law.
Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers.
Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this Viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints.
The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be

able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence.

A issue to be taken into account: transparency of information

Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries.

As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances.

The drawbacks of an approach based on a single model

While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it,* is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and lFRS standards.
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From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private.

The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected.

We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations.

Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement.

All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.

Specific Matter (or 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?
Answer to items (a) **and** (b):
Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.
From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions...), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered
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over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation.
Equally cf. answer to Question No.4.
Specific Matter (or 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?
Answer:
The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors.
The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and stock holdings (specific description of control of an entity by another), on the other hand.
The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets.
More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that *benefits* from the service potential of these assets, even though it is the guarantor (custodian).
Therefore, the two approaches are complementary.
Specific Matter (or Comment 3
Is it sufficient to state that an asset is a "present" resource, or must there be a past event

that occurs?
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Answer:
The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).
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?
Answer:
The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the aunual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year.
According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.
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?
Answer:
No.
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?
Answer:
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(a) In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorisation model.

Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future.
Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable.
With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party.
By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified as the "beneficiary" of the said obligation.
(b) Specification of the due date is' not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).
Specific Matter for Comment 7:
(a) Should the ability to identify a specific partyties) 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?*
Answer:
(a) Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.
(b) No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).
(c) Cf. answer to Question 10 hereinafter.
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?
Answer:
A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.
Specific IJlfatter for Comment 9:
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(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?
Answer:
(a) The legal character or an obligation must be a determining criterion, which implies

that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.
(b) No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.
(c) Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.
Specific Matter (or 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?
Answer:
The legal character ofan obligation is an essential factor.
Specific Matter (or 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?
Answer:
The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.
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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?
Answer:
(a) This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.
(b) To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.
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 IPSASE needs to consider in determining the definitions of revenues and expenses?
Answer:
(a) No.
(b) No.
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?*
Answer:
(a) Yes.
(b) These items ought to be considered as assets and liabilities following the preference for the balance sheet approach retained by the Court of Auditors.
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 GEE, be incorporated in the element definition?
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(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?
Answer:
(a) The answer will depend on the natnre of the entity. For a centralised State, the difference between assets and liabilities will be a residual amount, considering the lack of recogoition of sovereigoty assets. For other public entities, it may refer to a proprietary interest.
(b) Yes, for the entities concerned.
(c) No.
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?
Answer:
This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recogoition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recogoition in the form of capital investments. .
Specific Matter for Comment 17:
(a) Should recognition criteria address evidence uncertainty by requmng 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?
(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?
Answer:
(a) The recogoition of an asset and a liability should only be carried out where its measurement is reliable.
Specific Matter for Comment 18:
Do you support the use of the same criteria for derecognition as for initial recognition?
Answer:
Yes.
Specific Matter for Comment 19:
Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?
Answer:
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The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.
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Stephenie Fox
The Technical Director
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Dear Stephenie

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

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (the consultation paper). I am sorry that I did not get this to you by the due date. I trust that you will still be able to consider our comments.

In our view, the IPSASB must ensure that the elements and recognition criteria selected properly integrate with non-financial information, so that the objectives of financial reporting are adequately met.

We think it is imperative that the debate about the asset and liability-led approach versus the revenue and expense-led approach does not detract from the importance of users being provided with the main information they need in general purpose financial reports. As currently expressed, we see a risk that one approach may be seen to better meet the objectives of general purpose financial reporting than the other approach. We do not believe this to be the case. We think the objectives of accountability and decision-making should be unaffected by the approach the IPSASB finally decide to adopt.

We attach our responses to the specific matters for comment. If you have any questions or would like clarification about any of our responses, please contact me in the first instance. I can be contacted by email (greg.schollum@oag.govt.nz) or phone (+64 4 917 1603).

Yours sincerely

Greg Schollum
Assistant Auditor-General (Accounting and Auditing Policy)

COMMENTS ON THE 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?

In our view, the definition of an asset should cover service potential, 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?

In our view, it is important that the term used in the definition of an asset is economic benefits **and** service potential, because many assets in the public sector do not generate economic benefits for the public sector entity that holds them. Rather, the assets are held by the public sector entity to provide essential services to the public.

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?

In our view, either the control approach or the access to rights approach should be used to associate an asset with a specific entity. We see the two approaches as being quite similar. We would expect nearly all items that are considered an asset under one approach would be considered an asset under the other approach.

(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?

In our view, an entity's enforceable claim to benefits and ability to deny, restrict, or otherwise regulate others' access to rights link a resource to a specific entity.

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

In our view, there are no other requirements needed to link an entity and 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?

In our view, it is sufficient (and preferable) to state that an asset is a present resource. In most cases the present resource will arise because there has been some past event. However, specifying a requirement for a past event is unnecessary, and from experience can cause debates about whether there has been an event that gives rise to a particular 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?

An entity's power to tax or levy fees arises under legislation. Therefore, the power is regulatory in nature. Although such powers could be seen as an asset, in our view, the powers in themselves should not be considered sufficient to give rise to an asset. In our view, it is the exercising of powers that gives an entity rights that lead to the entity having an asset. If an asset is considered to exist before regulatory power is exercised, we expect that financial statements will lose their relevance to readers, and become more difficult for readers to understand.

Specific Matters 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?**

In our view, there are no additional characteristics 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?**

In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of assets.

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.**

In our view, the definition of a liability should cover each of the four types of obligation outlined above.

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

In our view, a settlement date is not 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?

In our view, being able to identify a specific party outside the reporting entity to whom the reporting entity is obligated is not an essential characteristic 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?

We agree that the absence of a realistic alternative to avoid an 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?

In our view, approach (c) in paragraph 3.28 is the best approach for determining whether a public sector entity has no realistic alternative to avoiding an obligation. Given that approach (c) incorporates non-exchange transactions, we believe it is important to note that in our view approach (c) does not necessarily mean that future social policy obligations would be a liability, because at any point in time there is unlikely to be an enforceable obligation for future social policy payments.

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?

In our view, as we noted for an asset and for similar reasons, it is sufficient (and preferable) to state that a 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?

In our view, an obligation of a public sector entity exists when the entity has little discretion to avoid the obligation. That view links reasonably well with the notion that there needs to be an enforceable claim against an entity for the entity to have an obligation.

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

In our view, the enforceability of an obligation is 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?

In our view, the definition of a liability needs to include an assumption about the role that sovereign power plays. The assumption needs to limit the role of sovereign power to the legal position at the reporting 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?

In our view, there are no additional characteristics 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?

In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of liabilities.

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)?

In our view, revenues and expenses should be determined by changes in net assets (that is an asset and liability-led approach). However, in preferring that approach, we think it will be important to ensure that the way in which revenues and expenses are presented in a statement of financial performance integrates well with broader aspects of performance that should be described in non-financial terms.

There are two matters in the discussion preceding question 11 that we have issues with. The first is the table explaining the asset and liability-led approach at paragraph 4.16. We do not agree with the 20X3 column. In our view, an asset and liability-led approach would take into account the time-bound nature of the December 1, 20X3 transaction and as a result recognise a liability of CU100 as at December 31, 20X3.

The second matter is the implication drawn from paragraph 4.23. That paragraph notes that deferring items reduces volatility in reported performance. By implication that statement suggests volatility in financial performance is something to be minimised. In our view, volatility is not something to be minimised, and there should not be an objective of trying to reduce volatility for its own sake. Financial reporting needs to faithfully represent the underlying reality of transactions, regardless of whether that creates volatility in reported performance.

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

In coming to our view about preferring the asset and liability-led approach, we were conscious that that approach aligns with the IASB's approach, and therefore will work better for public sector group reporting that incorporates GBEs (given that GBEs are directed to use IASB standards).

Also in coming to our view, we felt that the revenue and expense-led approach was more open to manipulation, because it is not clear how to determine those flows that relate directly to the current period operations.

Specific Matter for Comment 12

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

In our view, transactions with residual/equity interests that in-substance are contributions or distributions should be excluded from revenues and expenses. We acknowledge that it can be difficult to determine whether transactions are of that nature where the residual/equity interests are individuals (e.g. ratepayers or taxpayers) rather than entities. However, apart from the various levels of government, most public sector entities could receive contributions from or make distributions to a "parent" public sector entity, including a government parent.

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

In our view, the definitions of revenue and expense should not be limited to specific types of activities associated with operations, however described.

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?

In our view, there are no additional characteristics 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?

In our view, there are no other relevant issues that the IPSASB needs to consider in determining the definitions of revenues and expenses.

Specific Matter for Comment 14

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

In our view the statement of financial position should include only assets, liabilities and equity, not deferred revenues and deferred expenses. In our view, the manner in which financial performance

is presented may be able to alleviate some of the underlying concerns that motivate the deferral of certain revenues and expenses.

(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.

Not applicable, given our response to question 14(a).

(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?

In our view, the definitions of deferred outflow and deferred inflow would be appropriate. However, there would be challenges giving effect to the definitions because the 'applicability of net assets to future reporting periods' does not appear to be well defined, and therefore there is potential to manipulate financial performance. In our view there would need to be robust principles put in place around deferrals to ensure a reasonable level of consistency in what could be deferred.

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?

In our view, the net assets/net liabilities represent the interests of the ultimate owners, which in the case of a national government are the citizens, and in the case of a state or local government are the citizens within that state or local area. However, for the purpose of the conceptual framework, it is not necessary that these interests are described as ownership interests. In our view, the more important point is that equity or residual interest is defined as an element and that transactions can occur directly within equity (for example, a contribution from owner or equity contribution).

(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?

We are somewhat confused by question 15(b) given that GBEs are scoped out of the conceptual framework. Nevertheless, the concept of ownership interests is likely to exist for GBEs, many of which will be companies that issue shares. However, from our experience, it is unlikely that public sector entities, other than GBEs, will have ownership instruments, such as shares. Therefore, minority interests may not be an issue for non-GBEs in the public sector.

(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?

In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of net assets/net liabilities.

Specific Matter for Comment 16

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

In our view, transactions with residual/equity interests do not need to be defined as separate elements, so long as equity is defined as an element. In our view, equity is one of the basic building blocks of financial reporting, in the same way as assets and liabilities. The basic equation for a statement of financial position is assets less liabilities equals equity, and it is important to us that those three elements are appropriately recognised so that amounts can be directly allocated to the elements as appropriate.

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

In our view, if equity or the transactions within equity were defined as separate elements, it would be important to link them with capability and capacity decisions of governments, or other public sector entities that make such decisions. In New Zealand, the government gives effect to this concept by making budget decisions to appropriate capital to public sector entities that are part of the government. The capital appropriations are typically to increase an entity's capability or capacity. A capital appropriation inflow in the financial statements of a public sector entity is basically capital introduced, and in our view is most appropriately accounted for as an equity contribution.

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?

In our view, recognition criteria should address evidence uncertainty by requiring an evidence threshold, such as a requirement for it to be probable that future economic benefits or service potential associated with an item will flow to or from the entity before an asset or liability is recognised.

We would be concerned if recognition in the public sector was based on a measurement attribute approach, because the majority of public sector entities do not operate in a market environment. Therefore, a measurement attribute approach is likely to be open to manipulation of probabilities of inflows and outflows, and is likely to produce financial information that, in our view, is not meaningful to users.

For example, recognising a liability of CU200,000 based on a 90% chance of no outflow, and a 10% chance of a CU2,000,000 outflow is not particularly meaningful to a user, given that the only possible outcomes are zero or CU2,000,000. Also, there can be debates about the percentages attributed to the possible outcomes, resulting in a liability being recognised based on questionable information. In our view, narrative disclosure of the possible outflow of CU2,000,000 is likely to be more meaningful and relevant to users of the public sector entity's financial statements in this example.

(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?

In our view, there should be a "probable" threshold for the recognition of both assets and liabilities.

Specific Matter for Comment 18

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

In our view, the same criteria should be used for derecognition as is used 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?

We do not have a strong view about whether recognition criteria should be an integral part of the element definitions.

BRITISH COLUMBIA
The Best Place on Earth

July 8, 2011

244128

Via e-mail: EDComments@ifac.org
stepheniefox@ifac.org

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ON M5V 3H2

Dear Ms. Fox:

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

Thank you for the opportunity to comment on the above IPSASB Conceptual Framework Consultation Paper. We appreciate the amount of work that has gone into this document.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. PSAB is currently undertaking a review of its Conceptual Framework and has indicated that its taskforce undertaking the review will refer to the IPSASB Conceptual Framework Exposure Draft 1 and the accompanying Consultation Papers. As a consequence, we have a particular interest in the development of IPASAB's conceptual framework.

The Objectives of Financial Reporting

In a letter to you covering the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Exposure Draft the province outlined its views that government financial statements are primarily for accountability purposes and the ability of the financial statements to support decision making is limited. The province also noted that the general public is the primary user and does not support the bifurcation of the users into recipients and resource providers. These comments are elaborated on in that letter and are repeated here as they apply in a general sense to all issues covered in this letter.

It is unfortunate that the Consultation Paper does not discuss the existence and measurement of Capital and the related application of Capital Maintenance Principles at the beginning of this paper. In fact the paper does not mention these issues, beyond a short discussion of whether net assets/net liabilities constitute capital, but without discussion of what the impact on the conceptual framework would be if it is determined that government does not have capital or conversely if it does have capital then what basis of capital maintenance ought to apply. This would have a direct impact on the discussion of elements.

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Ministry of Finance Office of the Comptroller General
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This issue will be discussed more, in our comments on Part 5 of the paper, but briefly the province believes that government does not have capital and therefore capital maintenance principles do not apply.

The Province supports the income and expenses-led approach which is consistent with the stated position in the Consultation Paper that government does not have capital. The cost basis of measurement is appropriate when there is no capital and therefore no basis for applying capital maintenance principles.

This letter will summarize main points of view regarding the main sections of the Consultation Paper. Attached are two Appendices, Appendix A is a more detailed discussion of the issues in the Consultation Paper which provides more detail of the thinking behind the positions expressed in the letter, and Appendix B is a chart outlining the features of various measurement bases.

Thank you again for the opportunity to comment on the Conceptual framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements Consultation Paper. Letters on the related Consultation Paper covering Measurement of Assets and Liabilities as well as the related Exposure draft are being submitted separately. Should you have any comments or questions please contact me at (250) 387-6692 or by email: stuart.newton@gov.bc.ca or Carl Fischer, Executive Director, Financial Reporting and Advisory Branch, at (250) 356-9272 or by email: carl.fischer@gov.bc.ca .

Sincerely,

Stuart Newton
A/Comptroller General
Province of British Columbia

cc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Charles Coe,
Special Advisor, Accounting Policy
Office of the Comptroller General

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Appendix A

Definition of an Asset

The province believes that the objective of government financial statements is accountability to the public for the resources made available to government and the uses to which those resources were put. Since accountability is entity specific, the accounting basis should reflect the accountability focus; in which case measurement values should be entity specific and historical as well as measured at entry point to account for that specific entity's resources provided and resources utilized; rather than market based for comparison of the jurisdiction's financial position with another jurisdiction. The province recognizes the value of a consistent set of accounting standards used by all jurisdictions which would facilitate comparison with other jurisdictions by those who wish to do so; but that is not the primary objective.

Further, if you accept that government has no capital and the appropriate asset valuation model is historic cost for accountability purposes, the issues raised in this section of the paper on the definition of an asset as an element are viewed from a different perspective. Attached, as Appendix B, is an expanded copy of the table in the Consultation Paper on Measurement of Assets and Liabilities in Financial Statements, which relates asset valuation models to both Capital and Capital Maintenance Concepts.

The paper describes an asset in terms of its ability to be used to provide service and its ability to generate cash from its sale or from user fees. It specifically raises the possibility of including mineral rights as an asset which is consistent with the existing IPSAS 27 on Agriculture. The province does not support the concept of including natural resources on the government's balance sheet. Jurisdiction over natural resources within Canada's boundaries is assigned by our constitution to the applicable province. While the province recognizes its custody of these resources on behalf of the public it does not attempt to measure or report the quantity or value of these items. The government did not pay for these assets and only accounts for these assets when a disposal occurs, usually through a license to explore for and extract mineral resources or a license to harvest timber or when Crown land is either sold or granted to someone.

It is difficult to understand how any jurisdiction would be able to estimate the physical quantity of natural resources that have not yet been discovered or to state their quality or their value. Even if the province is aware that a mineral deposit exists, it will not develop the property. The province auctions licenses to the private sector to explore for undiscovered resources and develop/extract any commercially viable resources found.

IPSASB could argue that the opportunity to license could be recorded as an asset, but it would be very difficult and highly unreliable to estimate the likely market/auction value of all possible licenses that could potentially be sold. The Consultation Paper discusses recognition issues in Section 6 of the paper, addressing both existence uncertainty and measurement uncertainty. The discussion and the questions asked for discussion assume that it is preferable to estimate and record any asset identified.

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There is a concern that attempting to place a value on the quantity of natural resources on or in public land would not be any more meaningful to the primary users of the financial statements than not disclosing any natural resources on the balance sheet. Any claim that the market value of natural resources represented by a multiple of the sales price of one unit of the resource that sells in an open market is meaningful is uncertain; because the volume of the resource being measured could in some cases exceed an entire year's trading activity. The unit value for selling all available natural resources, for all Canadian provinces as they all have the same fiscal year end, would drive down the "market price" to virtually nil. To assume that a meaningful value results from a multiple of the sale price of a marginal quantity of the natural resource would introduce as much subjectivity to the balance sheet as saying you are unable to place a value. Equally concerning to governments would be the expectation that may be created in the mind of the reader of the financial statements that this "value" is available to be spent on goods and services for the benefit of the financial statement reader.

In discussing public sector rights or powers the Consultation Paper raises the issue of whether the government's inherent right to tax is an asset that should be recorded on the balance sheet. The paper reviews two perspectives being the right to tax is an asset or the power to tax is an asset. In one perspective, the right to tax, although seen as being limited by political, social and economic realities, is none the less a right to future benefits. In the second perspective the power must be exercised or exercisable by the government before future benefits can be considered to exist. This is understood to mean that in the first perspective there is no need for a taxation law to exist, merely having the right or capacity to establish a law conveys a benefit on government. In the second perspective a law must exist defining the tax and its basis of assessment to be recognized as an asset. Either of these basis of taxation result in recording future tax revenue for an indefinite period, presumably on a net present value basis. The paper does note that the benefit can be assigned to another entity for a fee which would crystallize its value, for example the sale of the rights to toll a road for a number of years into the future. The province does not support recording future tax revenue as an asset for an indefinite period into the future (presumably it would be estimated on a net present value basis) on the sole basis that it has the opportunity to submit legislation to impose or collect a tax in the future. Unless all future governments are assumed to have a majority in the legislative assembly and would support the tax in question legislative passage is not assured. The province also does not support recording on a net present value basis all future taxes it expects to collect on the basis of existing law because no taxing event has occurred and conversely no taxpayer is required to acknowledge a liability. The province does support accruing tax revenue when the taxing event has occurred, such as personal income taxes assessed on a calendar year basis, with a filing deadline by the taxpayer of April 30, for the government's March 31 fiscal year end. The province would also support the recording of the sale of future rights to tax, such as the example of selling the right to toll a road, where the province receives a lump sum today for tolls/taxes covering services is to be provided in the future and the buyer will collect in the future, but this would require establishment of an element to recognize deferred revenue.

Definition of a Liability

As noted above, the province believes that the objective of government financial statements is accountability to the public for the resources made available to government and the uses to which those resources were put. The province believes that an enforceable claim based on a past event needs to exist to establish a liability and recognizes that although an approved budget and appropriations are prerequisites to entering into a contract which establishes a liability the approval of an appropriation does not constitute a liability. The province does support the concept of constructive obligations particularly in relation to transfers received to fund programs to be implemented in future fiscal periods.

The province does not support the recording of all future liabilities for compensation of emergency relief it may provide to residents for events that have not yet occurred. This position is held regardless of whether there is legislation or other public documentation which specifies the terms and conditions that must be met to receive assistance or whether there is no specific legislation but there is a historical pattern of assistance that has been provided in the past for similar types of events.

The province is concerned about suggestions to mark to market long-term liabilities or debt. There are two grounds for this concern. First, the province does not support the application of capital maintenance principles which focus on the change in the net "value" of net assets/liabilities between two fiscal year ends as being a measure of annual income/performance. Secondly, fluctuations in the market value of long-term debt may reflect changes in the market interest rate for all issues by all jurisdictions within that class of debt and have no reflection on the willingness, possibility or probability of the province paying its own debt at face value. Changes in this rate may result from sources entirely extraneous to the province, such as central bank intervention in the market. Unless the province has purchased and retired the debt, or a portion thereof, no event has occurred that would prevent the province from paying the coupon interest rate on each required payment date and the full face value of the debt on maturity.

In the discussion of performance obligations, the example you have provided regarding a P3 agreement for a road where the private sector constructs a road that the province would own and the contractor receives a right to the tolls against a lump sum payment from the private sector contractor and an agreement to maintain the road would result in a complex set of entries. The province would record the fixed price contract (included within the overall project agreement) as the cost of the road with a corresponding liability, however, based on your example it would appear that the deferred revenue would be equal to the liability for the construction contract (which does not appear to have to be paid) plus the lump sum payment. The maintenance contact might be recorded in the notes as a contractual obligation and would appear on a net present value basis to be equal to the liability for the construction contract. The province would be very concerned with the suggested approach of following the treatment of the securitization of accounts receivable which left only the net remaining rights or obligations as assets or liabilities. The recent financial crisis should be sufficient evidence to discourage such an approach; therefore, recording all assets, liabilities, rights and obligations on a gross basis is more likely to have each of them managed and accounted for in a fully transparent manner.

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The province would support a view that constructive obligations and perpetual obligations should only be recorded if there is a sound basis for recognizing the claim. However, it should not be a requirement that the basis for recognizing the claim be a part of a transaction or be a stipulation within a transfer agreement. For example, when a federal government makes a public announcement that it is making a transfer of a large sum of money shortly before the close of its fiscal year end to a province or state and publically announces that the transfer is for funding specified future service delivery or a group of specified future service deliveries, such as health services, the recipient should record the funds received as deferred revenue/ constructive obligation, until it has legislative authority to spend the funds for the stated purpose. Similarly, when a transfer is specified to be for the construction of a tangible capital asset, which will in turn be utilized to provide future services, the deferral of recognition of that transfer as revenue should relate to the time period covered by the service delivery and not be seen as relating to the time period of construction.

The discussion of perpetual obligations suggests that a government cannot avoid certain obligations. This claim is not supported by the examples of security, education or health, all of which represent policy decisions by the government. For example Costa Rica has chosen to have no military at all, and conversely, what level of security does the obligation extend to, for example Canada has large neighbours on both its Northern and Southern boarders both of which have significant military capacity, surely you do not suggest the Canadian government should record a liability representing an obligation to establish an independent military sufficient to provide security from both neighbours. Canada has joined an alliance for which liabilities may be defined in agreements which may be appropriately recognized. In some countries education or health may not be a central or federal government responsibility or may be provided primarily by the private sector or religious institutions. The province does not support the broad sweeping generalizations made in this regard and feels that liabilities exist only when there is legislation or other authority to commit the government and where registration, application or other pre-conditions have been met by third parties.

The paper discusses recognizing obligations if they may lead to enforceable claims, which is also too broad a definition. The example of considering that the annual approved budget leads to enforceable claims and may therefore be a liability is not supported. The budget is a statement of policy and estimates of the cost of implementing the policies proposed. Even when approved by the legislative assembly no citizen can sue the government to provide some goods or services stipulated in the budget. In addition, the government has no authority to spend/disburse with only an approved budget. Subsequently, appropriations are approved by the legislative assembly which provides authority to spend but this still does not constitute a liability. Ministries will have to go through internal control procedures to have a contract approved before there is a liability. There is a special case, often referred to as entitlements, where citizens have a right, provided in legislation, to claim payment with or without a budget or appropriation although many of these also require an application and possibly a means test before a claim is enforceable.

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The province supports the view that although a sovereign power can avoid its future obligations through legislation, it cannot avoid its past obligations or obligations for which a confirming event has occurred. It is appropriate to measure a liability based on the existing legislation at the date of the financial statements, which may include qualifying criteria and may limit the obligation to a monthly payment (old age social security payments) for which the liability would be for one month at a time. Consideration would have to be given to a subsequent event if legislation that affected the determination of the liability was approved after the fiscal year end but before the date of the audit report.

Financial Performance: Revenue and Expense

This is perhaps the most important component of this Consultation Paper because it discusses two approaches to measuring performance of government as either the asset liability-led approach or the revenue and expense-led approach. Although the paper does not specifically relate the two approaches discussed with capital maintenance principles it is necessary to do so to properly understand the differences in the proposed alternative approaches to reporting financial performance.

The asset and liability-led approach defines the measurement of performance as being "the net result of all changes in the entity's resources and obligations during the period" while the income and expense-led approach defines the measurement of performance "as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period"[1].

The definition of the asset and liability-led approach is entirely consistent with the capital maintenance definition provided in the International Accounting Standards Board's (IASB) conceptual framework which states:

> "*Financial capital maintenance. Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.*"[2]

The IASB/IFRS Conceptual Framework describes capital maintenance as "the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital.

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[1] Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements, paragraph 4.4

[2] IASB/IFRS The Conceptual Framework for Financial Reporting, Chapter 4, paragraph 4.59

Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss."[3]

The IASB conceptual framework relates the measurement basis for assets and liabilities to capital maintenance principles and identifies market values as the appropriate capital maintenance measurement basis for financial capital, utilizing nominal monetary units. The IASB/IFRS Conceptual Framework also states "The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead these items are included in equity as capital maintenance adjustments or revaluation reserves."[4] This is the basis of Accumulated Other Comprehensive Income and over which current debate in IASB/IFRS has raised the question of whether Other Comprehensive Income should no longer be a separate statement forming part of the analysis of the Equity Section of the balance sheet but instead should be combined with Operating Income in one financial statement of Comprehensive Income. The latter presentation of moving other comprehensive income out of equity and treating it as part of the measurement of comprehensive income is a step toward the theoretical position in the above IASB/IFRS definition of Financial Capital Maintenance.

The revenue and expense-led approach is not described in this Consultation Paper in terms of its relationship to Capital or to Capital Maintenance principles nor is it described in the IASB/IFRS Conceptual Framework. The second Consultation Paper on Measurement of Assets and Liabilities in Financial Statements provides a chart linking the asset valuation basis to types of capital but not to capital maintenance. If the chart provided in the second Consultation Paper is expanded to include capital maintenance and the accounting for capital maintenance it would show the linkage between the revenue and expense-led approach to measuring performance to Capital and Capital Maintenance principles see Appendix B.

This Consultation Paper comes to the conclusion that a government's net assets/net liabilities represents a residual amount and thus government does not have capital[5] and logically if an entity does not have capital it would not apply capital maintenance principles.[6] If capital maintenance is not an objective in setting or measuring performance goals then what measurement basis would be most appropriate?

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[3] ibid, Chapter 4 paragraph 4.60
[4] ibid, paragraph 4.36
[5] ibid, paragraph 5.23 and 5.24
[6] There is discussion in the Consultation Paper regarding subsidiaries of government having capital but the province is focused on measuring government's performance as a whole through summary financial statement and not on subsidiaries whose capital would be eliminated on consolidation. Subsidiaries of government, with the exception of government business enterprises, are administrative entities created for management purposes and can be merged back into a ministry at any time. Accounting principles for government should not be based on these entities.

The province has indicated in its response to the Conceptual Framework Exposure Draft 1 that it "believes that general purpose financial statements are intended to provide accountability to the general public for the resources available to the government and the uses to which these resources were applied" and that "the financial statements convey the government's decisions and the impact of those decisions on the financial operations and financial position of the government". The government's views are entirely consistent with the Consultation Paper's definition of the income and expense-led approach, "as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period".
To show what resources were raised directly from the public, through taxes; were raised on their behalf, through borrowing; or were raised through the sale of public assets and to demonstrate how those resources were spent to the betterment of the public the cost basis of measurement is most appropriate. To ensure that funds that were raised in one fiscal period for use in a subsequent fiscal period are accounted for properly, deferred accounts are necessary.

The Province believes that it is important to convey to the public the decisions made by the government to raise taxes from the public, to borrow money on behalf of the public and to sell public assets for the purpose of providing goods and services to the public, this is accountability. The province does not support the view that government financial statements are intended to measure the "value" of the government at an arbitrary point in time to determine whether the government is "worth" more or less than it was at some other arbitrary point in time. Governments are not comparable to private sector enterprises that seek to increase shareholder value. Governments were not established to create or amass wealth in the name of the government itself; they are established to provide goods and services to the public, the mix of goods and services to be provided and to whom is a matter of public policy debate; and to raise resources to pay for the goods and services provided, the distribution of the burden of raising the resources is also a matter of public policy debate.

The Province supports the income and expenses-led approach which is consistent with the stated position in the Consultation Paper that government does not have capital. The cost basis of measurement is appropriate when there is no capital and therefore no basis for applying capital maintenance principles.

Transactions with Residual/Equity Interests

The province believes that government has no "equity" capital and therefore there are no equity interests and there is no basis to compare the concepts of capital with private sector entities. Government has stakeholders and in a generic sense has "owners" being the general public. Under this concept of "owners" it is not possible to eliminate transactions with "owners" as all taxes are raised from "owners" and all goods and services are provided for the benefit of "owners" and all transactions of this nature are reported through the operations statement. This is consistent with the views expressed in paragraphs 4.45 and 4.46 of the Consultation Paper.

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Based on the above discussion the list of components identified in paragraph 5.28 of the Consultation Paper comprising contributions and distributions to owners; capital maintenance and fair value adjustments and operating results is reduced to accumulated operating results which is again consistent with the view that net assets/net liabilities represents a residual amount which is not capital.

Recognition

The paper provides a good discussion of recognition issues. The Province understands that many of its concerns regarding defining mineral deposits and forests on Crown land as assets may be resolved through a decision to accept that these assets even though they may exist they may not be recognized. There is concern with IPSAS 27 relating to Forestry and the suggestion in the paper that mineral rights might constitute assets. The practice is not to recognize any assets that have not been paid for and for which the cost is not determinable. Regarding liabilities, recognition is dependent on the occurrence of a past event that triggers the liability although is some cases estimates may be used to measure the current cost to settle the liability. The Province does support the establishment of an element to recognize deferred revenue where appropriate and does not support attempts by some to require deferred revenue to meet a narrow definition of a liability in order to be recognized.

Appendix B

Table 1: Features of Measurement Bases						
Capital Concept	**Capital Maintenance Concept**	**Accounting for Capital Maintenance Adjustments**	**Measurement Basis**	**Historical or Current value?**	**Entry or Exit point of measurement ?**	**Value is Market or Entity Specific?**
None	None or not applicable	None	Historical Cost	Historical	Entry	Entity Specific
Financial Capital	Financial Capital Maintenance (Nominal Monetary Units)	Other Comprehensive Income (OCI)	Market Value	Current	May be either	Market
Financial Capital	Financial Capital Maintenance (Units of Constant purchasing power)	Change in Consumer Price Index to Capital; balance to OCI (Units of Constant purchasing power)	Market Value	Current	May be either	Market
Operating Physical Capacity	Physical Capital Maintenance	To Capital	Replacement Cost	Current	Entry	Entity Specific

ATTACHMENT A

HoTARAC RESPONSE TO IPSASB CONSULTATION PAPER 'CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS'

General comments

HoTARAC notes the IPSASB's comment on page 4 of the Consultation Paper that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, no reasons have been given as to why the International Accounting Standards Board's (IASB) conceptual framework is so fundamentally unsuitable for public sector entities, that development of a separate conceptual framework for such entities is warranted. HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework – particularly if alignment (to the degree possible) with IFRS is to remain an objective.

HoTARAC's preference is that the IPSASB and IASB work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. Even if this would delay progress from an IPSASB perspective, HoTARAC believes such convergence would result in superior long-term outcomes for public sector entities globally. The greater the potential for divergence between pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of-Government reporting entity. HoTARAC recommends that the IPSASB communicate to constituents how and when it will address this obvious tension between standard-setter frameworks under which various public sector entities might operate.

On page 4 of the Consultation Paper, the IPSASB states it is considering the potential for convergence with the concepts underlying statistical financial reporting models in developing the Conceptual Framework. HoTARAC prefers that the focus instead be on the underlying conceptual merits for general purpose financial statements. However, should the IPSASB identify more than one approach as being suitable, HoTARAC would support selection of that basis that most closely aligns with the GFS statistical model.

HoTARAC notes that the IPSASB's Conceptual Framework project is stated as applicable to general purpose financial reporting (which is a wider concept than general purpose financial statements). However, the IPSASB's Consultation Papers for Phases 2 and 3 of this project appear to more directly relate to general purpose financial statements.

Further, in light of the IPSASB's arrangements for release of separate documents for each phase of its Conceptual Framework project, HoTARAC would prefer more clarity about how the finalised Conceptual Framework documentation will be issued e.g. will it be issued as –

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- one inter-connected document with self-contained chapters for particular matters (e.g. elements and recognition, measurement etc);
- one document setting out the over-arching principles – which HoTARAC presumes relates to Phase 1 - with separate documents that deal with specific aspects (e.g. elements and recognition, measurement etc) but which are all subject to the over-arching principles; or
- some other arrangement.

Since some Conceptual Framework concepts (like measurement) could be applied beyond the boundaries of general purpose financial statements, HoTARAC recommends that the IPSASB clarify the application of all phases (particularly phase 1) of its Conceptual Framework.

HoTARAC strongly recommends that the IPSASB's Conceptual Framework (as the term implies) be restricted to high-level principles that are appropriate to reporting by the broad range of public sector entities. HoTARAC believes that issues relating to the practical application of those high-level principles only be dealt with in IPSASs.

HoTARAC also recommends that the IPSASB clearly communicate to constituents how and when the eventual outcomes of the IPSASB's conceptual framework project will be reflected in existing IPSASs, to ensure consistency across all IPSASB pronouncements.

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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) HoTARAC believes an asset should be defined in terms of "economic benefits", which would encompass all of the three types of benefits.

(b) HoTARAC considers that the concept of service potential is critical to the public sector and should be included in the Framework.

HoTARAC believes that whether 'service potential' is incorporated into the definition separately, or as a subset of economic benefits, is only a matter of terminology. As long as the definitions are clear, it is not an issue of significant importance in our view.

HoTARAC supports an asset being defined in terms of 'economic benefits', provided that the concept of economic benefits include the notion of service potential, net cash inflows, and unconditional rights to receive resources.

Specifically including the concepts of service potential and the resource being useful to achieve an entity's objective(s) are important as they capture situations specific to the public sector and provide relevant information in the public sector context.

Accordingly, HoTARAC suggests that the definition for an asset be framed as follows:

"assets are resources that provide future economic benefits that are useful to achieve the entity's objective(s)".

In relation to the terminology for the definition of an asset, HoTARAC supports the view that 'service potential' can be viewed as an economic benefit to a public sector entity and therefore can be included as a subset of economic benefits. There are two arguments to support this view. Firstly, "service potential" is by definition something of value to an entity, which as noted in paragraph 2.12, is also the definitional characteristic of an "economic resource". Secondly, acquisition of "service potential" will often require the sacrifice of other economic resources. Therefore, access to service potential is an economic benefit as it reduces the need for an entity to forego economic resources.

What is considered more important is clarity around the definition of "service potential" as there are several contradictory notions within the document of service potential and its relationship with cash flows. A single definition of service potential

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that either clearly includes or excludes cash flows would be helpful. This will also in turn influence whether the definition substance of an asset needs to specifically identify net cash inflows as a separate component.

Other comments:

HoTARAC notes the text limits conditional rights to those arising from contracts/binding agreements and some discussion of constructive obligation and non-exchange transactions (including international treaties such as Kyoto and tax receivable) would be useful as this is an overarching definition of an asset in a public sector context. HoTARAC also recommends the discussion on offsetting 'unconditional promises' consider the rights and obligations arising from a party's performance obligations under an agreement as currently being considered under the IASB's revenue recognition project. This project focuses on the obligation rather than whether the entity has been paid for the unconditional promise.

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) HoTARAC is of the view that control should be the primary criterion used to associate an asset with a specific entity. In addition, HoTARAC is of the view that the following are critical factors that indicate the existence of control:

- risks and rewards;
- the ability to restrict or deny access of others' to benefits; and/or
- enforceable claim to benefits.

As per HoTARAC's previous comment in the response to ED 194 *Service Concession Arrangements*, the concept of risks and rewards is complementary to, and indicative of, control, and the concepts are not mutually exclusive. The concept of risks and rewards could be considered to be a more sophisticated aspect of control, however it is also more complex to apply in practice as a result. As highlighted in the consultation paper, different parties may have rights to different benefits and risk exposures related to a single resource, and consider judgment may be required to assess the relative risks and rewards of the different parties for the purpose of associating an asset with a specific entity.
Another factor indicative of control (for the purpose of linking an asset to an entity) is an entity's ability to restrict or deny others' access to the benefits. The

absence of an entity's ability to restrict access either implies that the resource is freely available to all, which means that the resource is not a scarce economic resource that exhibits the essential characteristic of an asset or the asset is controlled by another entity.. An entity cannot intuitively be said to control an asset if it cannot restrict access of others to the asset's economic benefits.

Enforceable claim to benefits may be another strong indicator for linking a resource to an entity. However, as highlighted in paragraph 2.40 of the consultation paper, the absence of an enforceable and legal claim does not preclude an entity's access to economic benefits embodied in an asset. Accordingly, HoTARAC is of the view that an enforceable claim is another strong indicator of control (but not the primary criterion), as the absence of an enforceable claim does not necessarily mean that a resource should not be linked to an entity as an asset.

Other factors that have been found to be useful in practice for identifying control in the public sector have been adequately identified in the consultation paper. For example, an entity's access to the rights to benefit from a resource in meeting its objectives could be an indicator of control, however HoTARAC agrees that this concept is too broad when used on its own, as highlighted in paragraph 2.36.

(b) HoTARAC is of the view that an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access are not, on their own, adequate criteria for linking a resource to a specific entity. However, as commented above, HoTARAC is of the view that these factors, particularly the right to restrict or deny others' access to rights, provide indications as to whether control exists for linking a resource to a specific entity.

(c) HoTARAC has not identified any additional requirements.

Other comments:

HoTARAC believes it is important that there is a clear distinction between a government's right to benefit from the economic benefits embodied in an asset, and the rights the government obtains through its regulatory or legislative role.

In addition, IPSASB may want to consider the exercise of ownership rights of SNA 2008 as clarifying text to the risks and rewards view. Below is the relevant extract from SNA 2008.

> **7.11** In some cases, governments can create economic assets by exercising their sovereign powers or other powers delegated to them. For example, a government may have the authority to assert ownership rights over naturally occurring assets that otherwise would not be subject to ownership, such as the electromagnetic spectrum and natural resources in international waters subject to designation as an exclusive economic zone. These assets are economic assets only if the government uses its authority to establish and enforce ownership rights.

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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?

HoTARAC does not consider a past event a necessary condition for the existence of an asset.

HoTARAC is supportive of the view that the primary criterion of an asset should be a "present" resource, with the existence of a past transaction or event being an indicator that an asset exists.

HoTARAC agrees that, at a minimum, an asset must be a present and unconditional resource as at reporting date for it to be recognised, or continued to be recognised, as an asset in the financial statements. This would avoid the issue identified in paragraph 2.46 that assets may no longer exist at reporting date.

HoTARAC's view is that a past event is not critical for the definition of an asset, and the focus and effort should be better applied to determine whether a 'present' resource exists at reporting date. HoTARAC notes that GFS includes the concept of produced and non-produced assets, with non-produced assets including natural resources that have not arisen as the result of a past event.

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?

HoTARAC believes rights to tax and levy fees are assets.

However, the definition of an asset should be separate from recognition criteria and assets such as a right to tax would be unlikely to fulfil the recognition criteria before a taxable economic event occurs.

Other comments:

HoTARAC supports the 'power' view for recognising assets arising from a public sector entity's rights and powers, such as those associated with the power to tax and levy fees. While a government has an inherent right to future benefits from taxes and fees from its constituents, this right is recognised as a government's enforceable claim on a specific taxpayer's economic resources once a taxable event has occurred. The government's inherent right is perpetual, and in contrast with other assets, never diminishes, regardless of the amount taxed in a particular period.

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In this instance, HoTARAC is of the view that recognition on the government's financial statements should focus on its enforceable claim on a taxpayer's economic resource, which currently would be recognised when the tax event occurs. If the time the tax event occurs is not able to be reliably identified then the recognition point is when the tax is assessed. This approach is aligned with the Government Finance Statistic framework.

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?

(a) HoTARAC has not identified any additional characteristics that are essential to the development of an asset definition.

(b) HoTARAC has not identified other relevant issues that the IPSASB needs to consider in determining the concept of assets.

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) HoTARAC recommends the Framework begin by defining a liability and suggests the definition should include:

- an obligation, which is a duty or responsibility to act or perform in a specific way;
- a future sacrifice of the entity's resources or assets is required;
- no realistic alternative to avoid the obligation exists; and
- a present obligation (an unconditional obligation) must exist at reporting date.

Accordingly, HoTARAC agrees obligations listed in (i) and (iii) above fall with the ambit of the suggested definition.

(a)(ii) Unconditional (stand ready) Obligations

HoTARAC recommends care be exercised in the recognition of unconditional stand-ready obligations as it is not always apparent when they exist and whether they are a present liability (e.g. HoTARAC questions the reporting of a 'defence' liability where there is an inherent "stand ready" obligation under international law to defend the country against outside attack). HoTARAC notes that stand-ready obligations may potentially require certain contingent liabilities and other obligations previously considered as executory contract obligations to be recognised as liabilities.

HoTARAC considers that unconditional stand-ready obligations may create challenges for the public sector, in particular in drawing the distinction between a conditional obligation and a stand-ready unconditional obligation as commented in paragraph 3.14. Accordingly, HoTARAC encourages the IPSASB to provide clear principles and further guidance in IPSAS to assist public sector entities in dealing with these issues in circumstances such as:

- government grants, as outlined in paragraph 3.18
- service concession arrangements
- international treaties and obligations under international law such as military commitments
- other non-exchange transactions, such as donations and government assistances for events such as natural disasters and epidemics
- whether time is considered a condition for non-exchange transactions.

(a)(iv) Obligation to provide access to or forego future resources

In relation to the notion of obligations to provide access to or forego future resources, HoTARAC noted that there is some question as to whether providing a right of access entails a transfer of resources for the obligation to meet the definition of a liability (refer paragraph 3.19). HoTARAC's view is that obligations to provide access may be indicative of the existence of a liability, but should not be the defining criteria.

There is a view that to forego future resources does not require an outflow of the entity resources to settle the obligation and thus should not be identified as a liability. Alternatively, to forego future resources could be viewed as comprising two components: a claim against the entity 's future resources and the extinguishment of the obligation by the entity releasing/forgoing future resources.

Other comments:

In relation to the notion of performance obligations, while HoTARAC supports its inclusion as liabilities, further clarification is sought regarding the recognition criteria to be applied. For example, where a contract includes multiple performance obligations, would this lead to the recognition of multiple liabilities, all subject to individual recognition and measurement criteria?

(b) HoTARAC is of the view that settlement date should not be an essential characteristic of a liability. The essential characteristic should be whether the

entity has a present obligation or another entity has an unconditional claim on the entity's resources as at reporting date.

Requiring a settlement date as an essential characteristic would exclude obligations that clearly exist but with an uncertain settlement date, such as lawsuits, insurance liability, long service leave provisions, etc. HoTARAC notes that paragraph 3.22 suggested using the criteria "on the occurrence of a specified future event', but this would further blur the distinction between conditional obligations and stand-ready obligations. For example, there are instances in Australia where a perpetual loan with no settlement date exists in the public sector which carries no ownership connotations.

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) HoTARAC does not consider the identification of a counter party essential to the definition of a liability.

HoTARAC agrees that for a liability to exist, the obligation must be to an external party to the reporting entity. However, HoTARAC considers the ability to identify a specific party(ies) is only an indicator of an entity's obligation, and should not be part of the essential characteristics in defining a liability. For example, in some cases, a liability may be recognised without the need to identify a specific counter party and it is common for governments to have obligations to the general public rather than to specific parties (e.g. environmental / decontamination of sites). HoTARAC therefore supports including the counter party notion as part of the supplementary discussion.

HoTARAC supports the statements in paragraph 3.26 that "individuals with ownership-type interests acting in their capacity as owners are not considered "other parties"" and that "claims to an entity's residual interest that are capable of settlement only as a result of actions by the entity, are not liabilities of the entity."

(b) HoTARAC agrees that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability, because if the obligation can be avoided there is no claim on the entity's assets nor will there be a future sacrifice of the entity's resources or assets at that point. However, HoTARAC believes that the concept of unavoidability should be considered in conjunction with the obligating event being outside the control of the entity in developing a

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liability definition. HoTARAC also recommends further guidance should be included in the ED as to the definition of "realistic", in particular when dealing with unique public sector obligations. For example, would the government's inherent powers to avoid obligations be classified as a realistic power?

(c) HoTARAC supports approach (c) (the third approach) as outlined in paragraph 3.35. HoTARAC is of the view that "if… the evidence as a whole raises a valid expectation for the entity to perform [and] the entity cannot realistically withdraw from it' and other definition elements are met, then it meets the liability definition. HoTARAC also believes approach (c) (as explained in paragraph 3.28) better reflects the substance of public sector entity's obligations and role. As commented in our response to 7(b) above, HoTARAC suggests examples and guidance be provided to illustrate situations where an entity may not realistically be able withdraw from its previous obligations.

(d) The CP discusses the issue of a government 's budget and whether the approval of the budget results in an obligation, particularly with regards to social benefits. HoTARAC is of the view that these are estimates and intent of the government, but not an obligation as they are still conditional on the claimants/recipients to lodge a valid claim and/or the relevant event to occur (i.e. health problems, unemployment or disaster). In Australia, special appropriations allowed any citizen eligible to claim a government payment if the claim meets the criteria, in this instance, the budget estimates a realistic amount but does not set a limit on the resources that will need to be transferred to recipients.

Other comments

HoTARAC recommends the IPSASB consider providing further clarity and guidance to highlight the principal differences between approaches (a), (b) and (c), as the current wording is difficult to interpret.

HoTARAC also recommends the IPSASB consider that limiting liabilities to enforceable obligations under approach (a) would require exemptions in cases where public sector entities do not have distinct legal personalities, and transfers between them are not contractually, constructively or equitably enforceable (for example, tax equivalent payments).

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?

Consistent with HoTARAC's response to Specific Matter for Comment 3 above, HoTARAC supports the view that the primary criterion of a liability should be a "present" obligation. However, a strong indicator for the existence of a "present" obligation may be the existence of a past transaction or event.

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) HoTARAC notes that not all obligations can be recognised as liabilities and believes IPSAS should acknowledge this in framing the question. Only some obligations qualify as the more restrictive liabilities. Perpetual obligations, such as social benefits currently do not qualify as liabilities until all substantive obligations are met, and HoTARAC would support continuation of this approach.

Only obligations that satisfy the liability definition should be recognised, which is consistent with accrual principles (refer to Specific Matter for Comment 7).

(b) As indicated in our comments in Specific Matter for Comment 7(c), HoTARAC does not support the view that enforceability of an obligation is an essential characteristic of a liability. The essential characteristic of a liability should be focus on the notion of absence of a realistic alternative to avoid the obligation, rather than enforceability. Having said that, HoTARAC supports the view that enforceability does provide a strong indication that an entity has no realistic alternative.

(c) No. HoTARAC does not believe the definition of a liability should include an assumption about the role that sovereign power plays, as there are various legal structures and dynamics across countries. However, this notion may be considered as part of a disclosure requirement in a relevant IPSAS

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?

None identified, subject to our comments above.

Specific Matter for Comment 11

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(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) HoTARAC supports the asset and liability-led approach and therefore revenue and expenses should be determined by changes in assets and liabilities over the period.

HoTARAC acknowledges that performance reporting in public sector has a different role than for private sector, although it should be an accountability tool it is also important to provide information on the efficiency or inefficiency as the case maybe in using the entity's resources to deliver services to the public. A net cost of services presentation can help this.

Further, in the public sector the financial performance statement is the main focus, the balance sheet is viewed by GPFRs users as secondary. However, HoTARAC supports the asset and liability-led approach as it is conceptually superior to the proposed alternative and all changes in the balance sheet are reflected in the financial performance statement, albeit HoTARAC prefers the reporting of some transactions separately on the face of the statement (e.g. IASB - Other Comprehensive Income or GFS - Other Economic Flows).

(b) HoTARAC supports the asset and liability-led approach due to representational faithfulness and objectivity, and notes that the asset and liability-led approach is consistent with the approach used under current Australian GAAP, IPSAS, IFRS and GFS.

HoTARAC believes the concept of representational faithfulness is better aligned when financial statements' elements are based on objective measure of economic phenomena. This enhances the representation of resources and flows by requiring the reporting entity to assess information about economic events that have transpired during the reporting period.

Other comments:

HoTARAC also supports the asset and liability-led approach for the reason outlined in paragraph 4.26, as it provides better focus on a public sector entity's resources available to provide future services, obligations to transfer resources to others, and the net resources available to finance future obligations.

HoTARAC notes the comment in paragraph 4.27 that the concept of financial performance must be selected to develop a definition of revenues and expenses. HoTARAC questions, however, on how revenue and expenses can be defined without reference to the concept of resources, rights and obligations that

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underpin the definition of assets and liabilities. Without a properly defined concept of wealth or resources, there is no focus on the economic events affecting wealth over the period and, consequently no measure of the efficient use of resource. This is particularly relevant to public sector entities where there is less focus on profit generation.

HoTARAC acknowledges that the revenue and expenses-led approach has been pioneered by the US Government Accounting Standards Board, which allocates expenses to period in which the services are provided and revenues are attributed to the period in which they were intended to fund those services. However, it appears that the process of linking flows to the current period operations or provision of service/programs requires significant judgement by the entity and hence subjectivity is an issue that will impact on the understandability, consistency, and comparability of the information.

Further, HoTARAC has three main issues with the revenue expense-led approach as outlined in the document:

- the revenue and expense led approach applies a form of matching principle for its allocation of asset/liability to the current period based on current expenses. The rationale for the proposed expense and revenue allocation is not to reflect the actual economic phenomena, but as presented in the Consultation Paper, appears to be based on the view that **revenue should match the expenses**. This is a departure from the faithful representation qualitative characteristics (i.e. is it a true representation of the transaction that the revenue of the entity should match the expenses?). The allocation process itself is arbitrary and subjective, and the expense is often itself based on a subjective/estimates of the asset consumption (i.e. depreciation/amortisation);
- there are consequences of this arbitrary allocation which impacts on the financial performance statement and its usefulness for users. For example, the assessment of the an entity's management performance could be hidden because matching revenue with expenses does not provide any indication on the efficiency of the service delivered;
- if revenue expense-led were adopted, then deferred inflows and outflows should be included as separate elements on the balance sheet, however there is a question as to whether some of the deferrals under the revenue expense-led approach would meet the definition of assets and liabilities.

HoTARAC believes the IPSASB may consider the concept of other comprehensive income used under IFRS and other economic flows used under GFS in the presentation in the performance statement of valuation adjustments as an alternative to the concept of deferrals.

HoTARAC would like to see more detailed examples in the paper and feel the current examples are too simplistic. It is recommended that IPSASB use more comprehensive examples to demonstrate how these concepts would apply from year to year, and compare the financial impacts between the expense revenue led and the asset liability led methods over a number of years. HoTARAC would like to see a wider range of transactions such as. valuation changes, losses/write-

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offs, changes to expected amount/timing of transactions etc in the paper to encourage more informed future input from constituents

HoTARAC would prefer the response to focus on whether the revenue expense approach of linking flows to the current period operations or provision service/programs would meet the proposed qualitative characteristics, and if it is therefore unlikely to meet user needs. However, at the moment subjectivity concerns are subordinate to the more fundamental concerns.

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) HoTARAC supports the concept that transactions with owners as owners should be excluded from the performance statement when there is an ownership interests (i.e. equity interest). As in the corporate sector, government should recognise these transactions separately from the performance statement. Given that IPSASB Conceptual Framework is proposed to be applicable at the reporting entity level, the concept of ownership interest should be retained. At the consolidated level, ownership interests are subsumed into net worth (i.e. residual amount).

Distinguishing between revenue and capital funding in the GFS General Government sector and between General Government and its business entities is important in assessing financial performance of the General Government sector units within that sector.

(b) HoTARAC recommends that IPSASB consider the similar concepts of IFRS "Other comprehensive income" and GFS "Other economic flows", to allow users to distinguish between transactions and valuation adjustments.

HoTARAC notes IPSASB attempts to minimise divergence from the GFS reporting model. In Australia, an attempt has been made to harmonise government reporting under GAAP with the Government Finance Statistics Framework. One of the harmonising requirements is the distinction between increases in net worth, arising from transactions (defined as mutually agreed interactions between enterprises) which are recognised as revenue, and other changes in volume or value of assets (recognised as other economic flows). The channelling of valuation adjustments to other comprehensive income facilitates this process.

HoTARAC supports the proposal in paragraph 4.48 as providing additional information that is useful and relevant to users by making such distinction, however, this should be based on a sound conceptual basis, not decided on a

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standard basis (i.e. current IASB approach), and thus should be defined in the Conceptual Framework.

Other Comments

HoTARAC notes that the definitions need to be clear because different terminology has at times been applied to the same concept (e.g. in the Asset/Liability approach, revenue can be split between 'revenue' and 'other income', on the other hand 'revenue from transactions' could align with revenue as defined in the Revenue & Expense 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?

(c) 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?

See comments under 12 (above)

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?

Refer in part to comments under 11 (above)

(a) HoTARAC favours the assets and liabilities-led approach and does not support the identification of deferrals if they do not meet the definition of assets and liabilities, as these would not faithfully represent the economic phenomena.

Valuation changes should be reported as other comprehensive income as a means of allowing users to distinguish between the impacts of transactions and the impacts of valuation adjustments to assets and liabilities.

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(b) No response required.

(c) HoTARAC does not support the use of deferrals, but provides the general comment that the definitions are neither appropriate nor complete. [Refer to comments on the asset liability and revenue expense approaches]. The definitions of 5.8 mirror those of GASB, but do not clearly distinguish deferrals from other balance sheet elements. For example, a deferred outflow is defined as 'a consumption or reduction of net assets applicable to future reporting periods'. This begs the question as to whether capitalised restoration costs (AASB 116.16, IPSAS 17.30(c)) concomitantly qualify as both assets and deferrals, and how this should be treated in practice.

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?

This matter has been discussed, in part, under 12 (above).

(a) HoTARAC considers net assets/net liabilities to be a residual amount. Any ownership (minority) interest on this residual amount can be treated as a sub-class of this residual amount.

HoTARAC considers that the concept of ownership exists in government, but more due to government having, and exercising, the legal power and authority as an owner rather than through conventional equity ownership, i.e. it is often not an expectation of government to earn a return on the funds invested in one of its owned entities. However, this can differ markedly between sectors of government, with entities in the corporations sectors more likely to be required to be run on conventional private sector business lines. Entities in the General Government Sector are more likely to have efficiency-related operating conditions imposed, rather than any requirement for a return on capital invested. It should be noted also that Government's ownership interest and authority in its entities exists often through statutory means rather than through the issue of formal equity instruments. If the entity were wound up, the net assets of the entity would likely return to government as the legal owner and to minority interest as equity owner (if any).

HoTARAC agrees with comment made in paragraph 5.19 in that Government has an interest in the entity, and has the authority to direct the operating and

financing activities of the entity. Government can also require an entity to give up its resource to another entity, such as through machinery of government changes that may impact on its future ability to provide goods/services.

HoTARAC views all the above as government acting in its capacity as owner rather than as *interest in the capability of the entity to finance itself and to resource future operations* (paragraph 5.18). Therefore, HoTARAC proposes that the scope of 'ownership interest' be broadened to include such ownership interest for public sector entities in addition to the third parties only 'ownership interest'.

HoTARAC would also support discussion of distinguishing between government funding in it capacity as owner (equity) and other (non-equity) government funding to its controlled entities at the General Government sector level. HoTARAC recommends the following criteria be used for defining government ownership transactions:

(a) the government can exert control over its own investment, such as being able to sell its investment without unreasonable impediments;

(b) the investment entitles the government to a claim on the entity's net assets;

(c) there is a reasonable expectation of recovery of the investment; and

(d) the investee must be a GFS non-General Government Sector (non-GGS) entity. A government cannot invest in itself nor in another government.

(b) Consistent with our comment above, the concept of 'ownership interests' should be broadened and defined, but not as part of the element definition. HoTARAC supports, when relevant, including the concept of outside interests as minority or non-controlling as it shows information about the external claims on the entity's net assets.

(c) HoTARAC believes there should be some discussion on the transfer of resources between units within the general government sector. For example, this might arise as a result of a government decision to restructure its internal functions. In these circumstances, are the resources transferred directly between the units or do they represent a change in ownership interests by the controlling unit? This also comes back to the issue of differing concepts of 'ownership' discussed in (a) above, in relation to sectoral and consolidated reporting. For example, in the GFS framework, the General Government Sector represents the controlling interest in the other sectors of government. However, at the whole of government consolidated level this notion 'government' as owner virtually disappears.

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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?

As stated above in response to Specific Matter for Comment 12(a) and 15, HoTARAC supports net asset/liability being a residual amount. Accordingly it is not a separate element and a definition is not required.

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) HoTARAC supports a threshold for the recognition of accounting elements. It is recommended that three criteria are to be satisfied before an accounting element can be recognised. The first criterion is that the definition of an accounting element must be met. The second criterion is that it is "probable that the item embodies economic benefits for the entity / will require future sacrifice of the entity's resources". The third criterion is that the accounting element or transaction must embody the qualitative characteristics (e.g faithful, relevance, verifiability, etc...).

(b) HoTARAC supports a uniform threshold of probable. A situational approach would appear to be a more faithful representation and would be consistent in, some way, with IFRs and GFS. HoTARAC has previously opposed the elimination of probability recognition criteria in its response to IASB ED/2010/1 *Measurement of Liabilities in IAS 37 (Proposed amendments to IAS 37)*.

Other comments

HoTARAC prefers the 'probable' threshold and believes that a clear definition and guidance on the phrase needs to be provided.

However, HoTARAC notes that IFRS aligns better with the proposed approach based on the measurement attribute, most likely because IFRS proposals are based on a market value and thus does take into account probability in the measurement. Given that government assets are more likely to be measured at

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depreciated replacement cost, it makes for an argument to apply a probability threshold.

Specific Matter for Comment 18

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

For the same reason as IPSASB (stated in paragraph 6.25), HoTARAC supports the use of the same threshold for initial recognition and subsequent de-recognition of assets and liabilities, as this is consistent with the qualitative characteristic of faithful representation.

Other comments:

It is recommended IPSASB, when reviewing IPSASs for consistency with its Framework, revisits the 'virtual certainty' test for contingent assets of IPSAS 19.

Specific Matter for Comment 19

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

HoTARAC's recommends the recognition criteria be separate and distinct from the element definition. This keeps the element definition at a high level and simpler to understand. Separate definitions are useful for preparers in providing a structure for the recognition of balance sheet items and is used currently in distinguishing contingencies from assets and liabilities.

OTHER COMMENTS

Australia has adopted a single set of accounting standards and framework applying to both the public and private sector that are based on IFRS. Therefore, HoTARAC proposes that IPSASB works closely with IASB in the development of the conceptual framework for public sector with the aim of achieving, as far as possible, a uniform conceptual framework between the two bodies, with IPSASB considering the issues on their own merits from a public sector perspective.

HoTARAC believes that having a single set of accounting standards for both private and public sectors allows comparability and consistency of financial reporting between the two sectors.

Inconsistent numbering and grouping

Matters are numbered and grouped inconsistently. The sections on deferrals and equity are split, rather than being presented sequentially. Matters 12, 15 and 16 relate to equity; matters 11 and 14 relate to deferrals. HoTARAC also notes Specific Matter for Comment 2(b) is a restatement of 2(a)(iii), 'access to rights', with the

addition of the concept of enforceability and these should be combined in the final Exposure Draft is released, and the final ED could be simplified by grouping and consolidating the Matters for Comment.

Comparison with GFS

IPSAS states in the preamble that IPSASB is committed to convergence with GFS where appropriate, but a number of the matters are not compatible with GFS. It is recommended CF Phase 2 uses the same format of footnoting GFS requirements as CF Phase 3 stating the relevant requirements of GFSM 2001 in the eventual Exposure Draft.

Minor Errors

There is an apparent error in paragraph 2.22, where "**or**" should read "**but**"

> "should not hinge on whether payment has been made **or** whether, at the reporting date, the entity has a binding obligation to transfer resources in the future".

Paragraph 2.36 paraphrases the 'Access to the Rights' approach as a 'right of access', which is fundamentally different from a right or access.

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International Public Sector Accounting Standards Board

International Federation of Accountants

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Per e-mail stepheniefox@ifac.org

10 June 2011

Dear Stephenie,

COMMENTS ON PHASE I, II AND III OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT

We welcome the opportunity to provide comments on Phases I, II and III of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting.

Enclosed are our comments on:

- The Exposure Draft on Phase I – *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.
- The Consultation Paper on Phase II – *Elements and Recognition.*
- The Consultation Paper on Phase III - *Measurement of Assets and Liabilities*.

This comment letter has been prepared by the Secretariat and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has consulted a variety of stakeholders in the South African public sector, including auditors, preparers, professional bodies and academia.

As acknowledged in the various documents issued for comment, it may be necessary for the IPSASB to issue a complete Framework for comment once the various phases are complete. Based on the final outcome of the Framework, the views expressed in this letter may be subject to change.

Just as financial statements on their own may not provide sufficient information for accountability and decision-making under the accrual basis of accounting, the statement of receipts and revenues along with disclosures may not provide sufficient information under the cash basis of accounting. We therefore recommend that the IPSASB consider developing a separate Framework for the cash basis of accounting as this would be useful to supplement existing information either required or disclosed under the Cash Basis IPSAS.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole, Mr V Smith
Chief Executive Officer: Ms E Swart

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely



Erna Swart

Chief Executive Officer

Phase II – *Elements and Recognition*		
	Question 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?**
		Response to question The definition of an asset should cover both service potential and net cash inflows. To reinforce the consideration of both service potential and net cash inflows in identifying assets, it is proposed that the term "economic benefit and service potential" should be used. We question whether "unconditional rights to receive resources" are benefits of an asset. We would contend that unconditional rights are a way in which economic benefits and/or service potential arise.
		Other comments The section on liabilities indicates the following: • Liabilities are noted as arising from "obligations". A similar notion has not been reflected in the discussion on assets. In developing the definitions of assets and liabilities, it should be considered whether symmetry in these definitions is important. For example, liabilities are "obligations" to transfer economic benefits or service potential; similarly, assets should be "rights" to receive economic benefits or service potential. These rights can arise from ownership rights, contractual rights and rights arising from legislation. • "Social benefits" are seen as an unconditional obligation. Similarly, the opposite may be true for the right to tax. We would therefore suggest that the right to tax be explored as an unconditional right in the subsequent phases of the project. • It is noted that liabilities can arise from a variety of obligations (specific matter for comment 6). It is questioned whether the opposite side of these transactions should be considered from an asset perspective. For example, how or could an asset arise for an entity that is the counterparty to a transaction that gives rise to a performance obligation? These types of arrangements are prevalent when transfers are made from one level of government to another.
	Question 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?**

		Response to part (a) The three approaches outlined in the Consultation Paper, are not mutually exclusive. Where, for example, a control approach is used, consideration of the risks and rewards related to the asset may provide a useful indication of whether control exists. Similarly, the access to rights may also be an indicator of control. We support that "control" should be used to attribute an asset to an entity, with "risks and rewards" being an indicator of whether control exists. "Control" is favoured over a risks and rewards approach as it may be difficult to apply the concept of risks and rewards in the public sector where, for example: • Assets are used by more than one entity, e.g. each entity may determine that it bears risk related to the asset and shares in the benefits. Accounting for assets using only such an approach (even if on the basis of "majority" benefits) may be subjective. • The intention of an arrangement is the sharing of risk, e.g. service concession arrangements.
		Response to part (b) An "enforceable claim" does link a resource to an entity, although it is not the only means of linking a resource to an entity. As noted in the response to SMC 1 above, it is important to indicate how a resource arises for an entity, e.g. through a "right" or similar means. We consider the existence of an "enforceable claim" provides evidence that supports the recognition of an asset rather than it being a characteristic that defines an asset, i.e. a resource meets the definition of an asset because an entity has rights to receive economic benefits and/or service potential, but that those resources are only recognised as an asset when the rights are enforceable.
		Response to part (c) Resources may be attributed to an entity in a variety of ways. The Consultation Paper explains that these resources may arise from contractual rights. They may, however, also arise through legislation. For example, taxes, fines and appropriations receivable are typical examples of resources that arise from legislation rather than the conclusion of a contract.
	Question 3	**Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?**
		The word "present" implies that a something must have happened in the past to give rise to a "present resource". As a result, we are of the view that regardless of whether "present" is used in the asset definition, or specific reference made to a "past transaction of event", the result is the same. We do however support the principle that an event must occur to give rise to an asset and, as a consequence believe that using the word "present" captures this concept. During our deliberations on what is meant by a "present" resource, it was suggested that the Framework should explicitly state that executory contracts should not be recognised. We would support the view that executory contracts meet the definition of assets and liabilities as they give rise to rights and obligations. The fact that they should not be recognised as either an asset or liability depends on the recognition criteria developed. As an illustration, executory contracts will only be recognised once an enforceable claim exists, which will only arise when one of the parties performs. Until that point, the recognition criteria are not met. Also see our comments under specific matter for comment 2 on "enforceable claim" and specific matter for comment 17 on recognition criteria.
	Question 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?
		We are of the view that rights are not inherent assets of an entity and support the view that assets only arise once a right has been exercised. The existence of a right in itself does not give rise to a claim to economic benefits or service potential. It is an event or action related to the exercise of this right that gives rise to an asset. For example: The right to tax may exist at reporting date. Without a taxpayer earning taxable income during the reporting period, there is no right to collect tax and consequently no economic benefits will be received. While we acknowledge the view that a government or public sector entity has both rights and obligations into perpetuity, it is important to consider what assets and liabilities exist based on the exercise of these rights at a point in time, i.e. at the reporting date.
	Question 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?**
		Response to part (a)
		Refer to comments made under SMC 1.
		Response to part (b)
		Governments and other public sector entities often have stewardship over a variety of natural and other resources such as conservation areas, fauna, flora and marine life. In developing the definition of an asset, it would be useful if these types of resources could be considered in developing the definitions of assets.
	Question 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?**
		Response to part (a) We agree that the following obligations should be considered in formulating the liability definition: A. Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future. B. Unconditional obligations. C. Performance obligations We suggest that the wording proposed for assets regarding “net cash inflows” and “service potential” should be replicated in the liability definition. Obligations to provide access to or forego future resources are not separate obligations that require consideration. Obligations to provide access or forego future resources could

		be considered as a type of obligation that arises from the three liabilities listed above.
		Response to part (b) Reference to a "settlement date" is not an essential characteristic of a liability. Where a settlement date is not specified, this may add complexities to the measurement of the liability, but would not mean that an obligation does not exist. The key feature of a liability is that an obligation exists to pay/transfer economic benefits or service potential to another party.
	Question 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?**
		Response to part (a) An entity cannot have an obligation to itself. Obligations only arise with parties external to the reporting entity as such parties would have the ability to require the reporting entity to fulfil its obligation. It is however not necessary that the exact identity of the third parties be known for an obligation to exist. For example, a government commits to award 1,000 qualifying students with bursaries for a particular academic year. As the government has committed to provide bursaries, the obligation exists despite the fact that the identities of the 1,000 students may not be known at reporting date.
		Response to part (b) We would support the view that whether or not there is a "realistic alternative to avoiding the obligation" is critical in recognising a liability. We would see the existence of an obligation as being the characteristic that is important in defining a liability. The fact that an entity has no realistic alternative but to avoid the obligation would mean that the obligation should be recognised.
		Response to part (c) Instead of analysing whether legal and constructive obligations exist for exchange and non-exchange transactions, we would support the development of a broad principle that addresses the existence of obligations related to these transactions. We would support a principle that considers the existence of an obligation based on a past event, and the recognition of a liability where an obligation is enforceable. For example: A government may have a policy and history of providing housing to indigent families. While this may create an expectation that houses will be provided to all indigents the existence of a policy or past history does not give rise to an obligation. In our proposal, a liability will not exist until an indigent family makes a successful application to receive a house in a particular housing development (past event that meets the definition of a liability) and the government's obligation to provide this house can be enforced through legislation or similar means (event give rise to an enforceable claim). It is important to note that for many social benefits provided, the receipt of those benefits may be similar to a "contractual arrangement" that is concluded in an exchange transaction. A citizen often applies or requests to receive certain goods or services, which the government then agrees to provide. The existence of this type of "contractual arrangement" reinforces the notion that such liabilities only arise when they are enforceable (as a result of a past event, which is the agreement reached in the contract). For exchange transactions, an enforceable claim would arise where the obligation can be

		enforced by contractual and other legal rights, or by courts or similar means. It may also be appropriate to consider whether there is an expectation that a liability would be enforced by a court based on common law.
	Question 8	**Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?**
		See the response to SMC 3 on assets. The same response applies to liabilities.
	Question 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?**
		Response to part (a) As noted in our response to SMC 4, a government or public sector entity may have an obligation or an ongoing obligation to provide certain resources. However, until a specific event has occurred that compels the entity to transfer economic benefits or service potential to another party (i.e. the other party can enforce the obligation), a liability cannot be recognised.
		Response to part (b) If an obligation arises from a contract, legislation or past actions/behaviours, it implies that the obligation is enforceable. While enforceability is necessary, it is questioned whether this should be an explicit requirement in the definition of a liability.
		Response to part (c) As noted in specific matters for comment 4 and 9, rights and obligations should be assessed at a point in time, i.e. at reporting date. As a result, obligations should be assessed based on contracts and legislation in force at the reporting date. The existence of an obligation cannot be negated by future changes that may or may not be made and approved by a government.
	Question 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?**
		We could not identify any additional characteristics or other issues that require consideration in the development of a definition for liabilities.
	Question 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**

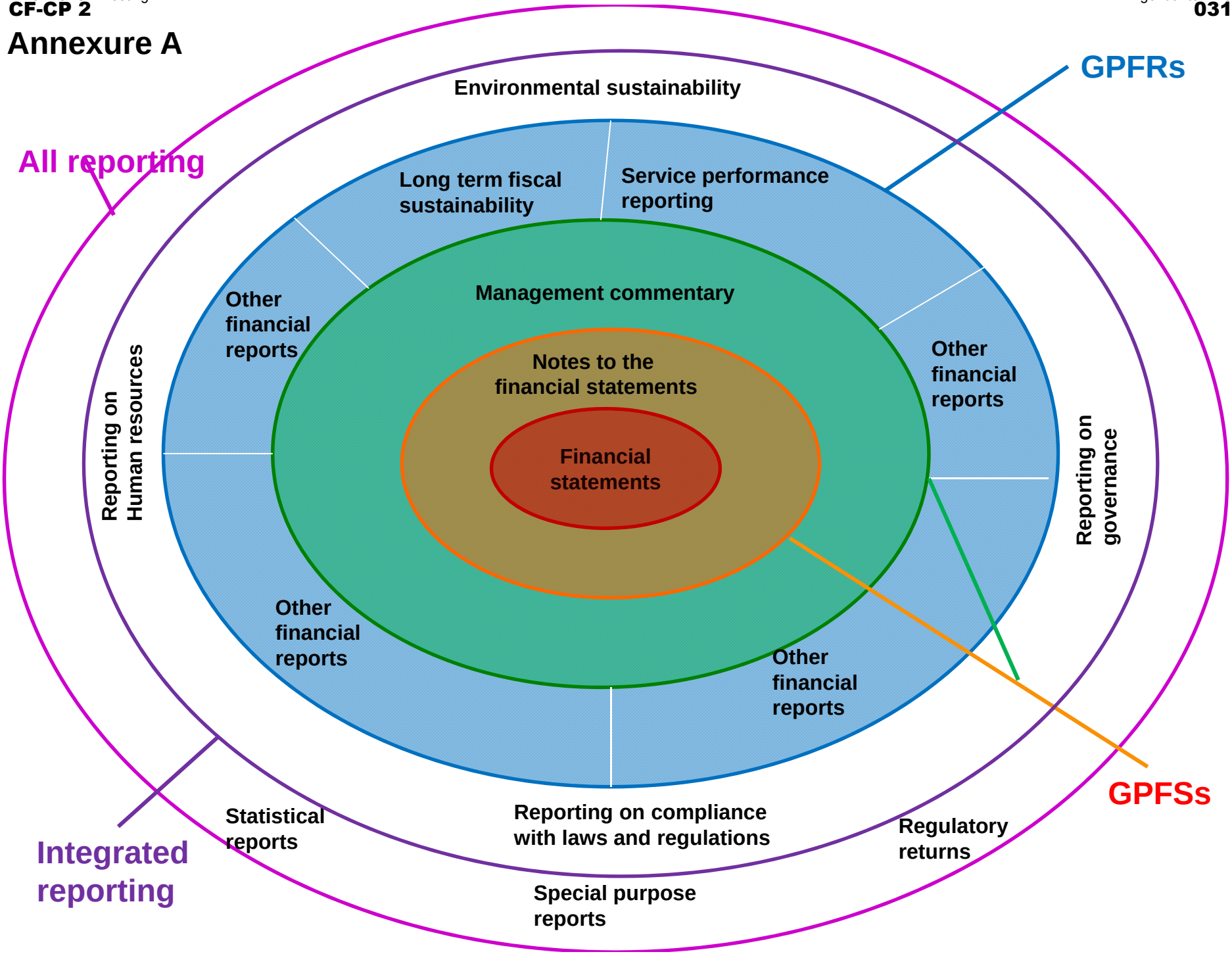
		on the preferred approach?
		We support the assets and liabilities approach for the following reasons: • Using the definitions of an asset and a liability provide a firm or definite "anchor" within which to define revenues and expenses, i.e. any changes in assets and liabilities can be viewed as revenues and expenses. • If assets and liabilities are not used as "anchors" to define revenues and expenses, it may be very difficult to develop a principle that can be applied consistently to the recognition and/or deferral of revenues and expenses. • The asset and liability approach is more consistent with the statistical basis of accounting which views the statement of financial performance or income statement as the change in the "stocks" held by an entity. We do however acknowledge that: • The presentation of certain revenues and expenses, such as fair value gains and losses, may need to be considered at a standards-level if the asset and liability approach is used. • The inter-period matching of revenues and expenses that result from the revenue and expense approach may provide useful information to the users of the financial statements. As such, it may be useful to provide this information as a disclosure to the financial statements and/or as an additional statement in the GPFSs or GPFRs. This information could be viewed as the first year of an inter-generational report that would provide information about whether current year taxpayers paid for the services they received in that period. A longer term inter-generational report could be prepared as an extension of this information and analyse whether the benefits received by various generations are equitable.
	Question 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?**
		Response to part (a) Revenues are received in exchange for goods and services provided or, for the use of an entity's assets. Revenues are usually used by an entity to fulfil its mandate. Contributions from owners are received in return for a right to an interest in an entity, and is regarded as the capital of the entity. As the substance of the inflow is different, contributions from owners should be distinguished from revenue.
		Response to part (b) While revenues and expenses may be attributed to specific activities, they arise from either changes in assets and liabilities or from events that occur in a specific period. The activities to which assets and liabilities or events relate is irrelevant in determining whether they are revenues or expenses in nature. The definitions of revenues and expenses should therefore not include only revenues and expenses that arise from specific activities. We would however note that it may be important to consider whether presentation of information on the various activities of an entity may be useful to users of the financial statements. For example, it may be appropriate to provide information in the cash flow statement about revenues and expenses arising from operating, investing and financing activities. This can however be achieved by considering presentation requirements at a standards-level.

	Question 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?**
		We could not identify any additional characteristics or other issues that require consideration in the development of definitions for revenues and expenses.
	Question 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?**
		Based on our response to specific matter for comment 11, we do not believe that deferred inflows or outflows should be defined as elements.
	Question 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 noncontrolling 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?**
		Response to part (a) Net assets/net liabilities is the net result of an entity's assets and liabilities and therefore represents a "residual amount". An ownership or residual interest may however be held over the "residual amount" of an entity. Whether a residual interest or ownership interest exists, may depend on the type of entity. For example: • The residual amount of a government agency or unit may represent the taxpayers' residual interest in the net resources available for the provision of future services. • The residual amount of an entity with share capital (stock) may represent the shareholders' ownership interest in the net assets of the entity.
		Response to part (b) In the South African public sector, entities do exist that have ownership interests similar to those of GBEs and private sector companies. We would therefore support the concept of an "ownership interest". It is not necessary to consider controlling and non-controlling interests at the level of the conceptual framework; this is a standards-level issue.
		Response to part (c) We could not identify any additional characteristics or other issues that require

		consideration in the development of concepts related to net assets/net liabilities.
	Question 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?**
		Response to part (a) Residual or equity interests should be distinguished from other elements. Consequently, they should be identified as a separate element. As various interests may be held over the residual amount of an entity (i.e. a residual or ownership interest), residual interests and ownership interests could be defined as a sub-set of the residual amount (net assets/net liabilities).
		Response to part (b) We are of the view that the characteristics already listed in paragraph 5.34(a) to (c) are essential in defining a residual or ownership interest. The characteristic in paragraph 5.34(d) is not unique to residual or ownership interests; they are also characteristics of liabilities.
	Question 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?**
		Response to part (a) Conceptually, if rights or obligations exist that otherwise meet the definition of assets and liabilities, they should be recognised. The extent to which they are likely, probable or certain should be reflected in their measurement. It may however be questionable whether such information would be useful to users of the financial statements, and whether in fact the information would be understandable as complex measurement techniques would need to be used. From this perspective, it may be useful to impose a "hurdle" for the recognition of assets and liabilities in the financial statements. This would ensure that only those assets and liabilities that meet a threshold (e.g. the inflow of benefits is probable or certain) are recognised, and would provide a consistent basis for users to understand what it means when these items are reflected on the financial statements. In applying this "hurdle", it is anticipated that a two-step approach is followed in recognising assets and liabilities: 1. An entity assesses whether it meets the definition of an asset or a liability. 2. An entity assesses whether the asset or liability meets the recognition criteria. We are cognisant of the fact that the thinking in the private sector may be to combine a "hurdle" such as probability, into the measurement of an asset and a liability. It may be appropriate to apply such an approach to the private sector where the main objective is to value the business, determine a share price and quantify risk. The objectives for preparing GPFSs in the public sector are different and, as a result, a different approach to recognising assets and liabilities may be justified in the public sector.

		Response to part (b) The recognition criteria for assets and liabilities should be similar. Historically, the recognition of assets has been relatively conservative, while the opposite is true for liabilities. This skewed approach to the recognition of assets and liabilities has not always provided a "fair presentation" of an entity's financial position because of the use of different hurdles such as "virtually certain" versus "more likely than not".
	Question 18	**Do you support the use of the same criteria for derecognition as for initial recognition?**
		The criteria for derecognition should be the opposite of the requirements for recognition to ensure that accounting symmetry is achieved. This will ensure that the same assets and liabilities are not reflected on more than one government or entity's financial statements.
	Question 19	**Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?**
		See the response to SMC 17 above.

Annexure A


All reporting
GPFRs
Environmental sustainability
Long term fiscal sustainability
Service performance reporting
Other financial reports
Management commentary
Notes to the financial statements
Financial statements
Other financial reports
Reporting on Human resources
Reporting on governance
Other financial reports
Other financial reports
GPFSs
Integrated reporting
Statistical reports
Reporting on compliance with laws and regulations
Regulatory returns
Special purpose reports

June 15, 2011

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

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

Dear Sir :

The Japanese Institute of Certified Public Accountants ("we", "our", and "JICPA") is pleased to provide you with our comments related to the above-captioned matter. Based on our review, we have the following comments.

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?

We agree with that the definition of an asset should include benefits in the form of service potential. However, we also believe that the definition of an asset should be determined with reference to the objectives of financial reporting by public sector entities. According to Conceptual Framework Exposure Draft 1, the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for

accountability purposes and for decision-making purposes. In order to discuss the definition of assets with reference to the objectives of financial reporting by public sector entities, we believe that it is necessary to make it clear whether public sector entities present benefits sufficient to provide public services to citizens at the reporting date or public sector entities are capable to continue to maintain benefits sufficient to provide public services to citizens in the future.

The above clarification is required because the definition of "service potential" affects determination of the basis of asset measurement. In other words, if "service potential" is focused on the benefits to provide public services to citizens at the reporting date, we believe that it is consistent to measure the assets based on historical costs. On the other hand, if "service potential" is focused on benefits that should be maintained to provide public services to citizens in the future, we believe that it is consistent to measure the assets by using present values.

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?

With regard to the approach to be used to associate an asset with a specific entity, we believe that it is appropriate to use firstly "control" and, secondly "risk and rewards".

The control approach focuses on the power to direct how the resource is used and is associated with statutory rights, but, if the approach is also understood as the ability to control expected benefits, it may be applicable to leased assets.

The access to rights, including the right to restrict or deny others' access to rights, need not be treated as a separate approach to be used to associate an asset with a specific entity because the concept of "control" an asset conveies such access to

rights.

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?

We support the approach 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. We believe that recognizing inherent rights and powers of public sector entities in the same way as rights and powers of private sector entities is relevant for users of financial reports.

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?

The definition of a liability should include (i) obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future, but it should not include (ii) unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).

In addition, with regard to the requirement for a settlement date to be eligible as liabilities, some members raised an argument that there are some payment obli-

gations of public sector entities, whose settlement day is not certain, even if those obligations are determined by law.

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) We believe that the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated should be considered to be part of the supplementary discussion.

(b) We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.

(c) We support the first approach, enforceable contractual, constructive, and equitable obligations, among the three approaches identified in paragraph 3.28.

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?

We support the approach that public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, are obligations only when there are enforceable claims. We believe that it is relevant for users of financial reports to recognize inherent duties and responsibilities of public sector entities in the same way as duties and responsibilities of

private sector entities

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?

In order to consider whether revenues and expenses should be determined by a revenue and expense-led approach or an asset and liability-led approach, concept of financial performance should be discussed and determined first by IPSASB.

We believe that financial performance should disclose the relationship during the relevant fiscal year, between expenses required by a public sector entity for the benefit of provision of government services to citizens (benefits for the citizens) and revenues, which are entrusted resources such as taxes and charges paid by citizens for the government services (burden of the citizens).

In general, the asset and liability-led approach, where financial performance reflects changes in assets and liabilities, will achieve a more faithful representation than the revenue and expense-led approach, which allows greater options in methods of allotment over periods. However, in order to present the financial performance as a relationship between benefits of provision of government services to citizens and entrusted revenue sources paid by citizens, the revenue and expense-led approach is more relevant than the asset and liability-led approach. Therefore, we believe that as long as the requirement of a certain level of faithful representation is met, revenues and expenses should be determined by the revenue and expense-led approach to supplement the asset and liability-led approach.

Specific Matter for Comment 12

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

Concerning (a), transactions with residual/equity interests should be excluded from revenues and expenses, because their flow is not directly related to activities of public sector entities in the current period.

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?

Concerning (a), we believe that deferrals need to be identified on the statement of financial position, because in order to fulfill accountability to citizens, the relationship between benefits of provision of government services to citizens and entrusted revenue sources paid by citizens in the current period should be clarified.

With regard to (b), we support the approach in (i) above.
If deferred outflows and deferred inflows are included as sub-components of assets and liabilities, users of financial statements may consider deferred outflows and deferred inflows to be the same as traditional assets or liabilities and, therefore, may misunderstand the financial position of public sector entities.

With regard to (c), if the definition of consumption or reduction (increase or acquisition) of net assets that is applicable to a future reporting period, as set out in paragraph 5.8 is applied, we have concerns that it will not be clear for which net assets the consumption or reduction (increase or acquisition) will be the deferred

outflow (inflow), and so deferrals may be accepted without limitation.

We propose the following definition of a deferred outflow (inflow):
"outflow (inflow) of resources incurred in the current or previous periods, and government services associated with the outflow are objectively expected to become effective in periods subsequent to the current period"

We propose the above definition because the requirement of faithful representation will be met for outflow (inflow) of resources that clearly become effective in future periods, by allocation over relevant periods.

In order to explain our proposal above, we would like to mention some examples commonly found in Japan's public sector. In Japan, local governments are often required to pay to the national government a part of the construction costs of assets such as roads and rivers owned and maintained by the national government, as a non-exchange transfer, despite the fact that local governments do not own or control such assets. An issue concerning the treatment of such payments by the local government has been raised. Such a transfer is not accounted for as an asset of the local government because of absence of ownership or control over the property. However, there are strong arguments that such a transfer should not be included in the financial performance (expense) of the local government when the transfer is incurred. A deferred outflow approach is expected to resolve the issue. People who argue this issue believe that such outflow (transfer to the national government) should be "deferred" in the statement of financial position since the entities (including citizens of the entities) receive benefits of the government services from assets maintained by the national government for a long period. Such a deferral would be depreciated over the useful life of the related assets.

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15 June 2011

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

I´m Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS. The conceptual framework for general purpose financial reporting by public sector entities considering the development of countries and jurisdictions, with different political systems, different forms of government and different institutional and administrative services. I agree with this proposal and I think that is very important this study.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this CP. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale. The Specific Matters for Comment requested in the CP are provided below.

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?

In this Draft, item 2.2, described that “Assets of a government or other public sector entity are a key element of the entity’s financial position. The recipients of goods and services and providers of resources (financial statement users) are interested in assessing whether the entity’s assets are managed efficiently and effectively in providing public goods and services. Asset definition and recognition therefore also play an important role in reporting on financial performance. Users seek to understand the effects of decisions to retain, use, or sell the entity’s resources on current and future resources available to provide public goods and services.”

I think that definition will be related with structure defined for ICAEW (2011, 22) because the use or not the information about point 2.13 – 2.22 (i) Service potential; (ii) Net cash inflows; and (iii) Unconditional rights to receive resources.

I don´t know if have impact about what´s to register in the financial reporting, as described in the point 2.3 and 2.4 about the substance of an asset; How to determine if it is an asset of the reporting entity; and How to determine if it is an asset at the reporting date, these aspects is related in the use of activities and applicability of transparency and clarified for due process.

The economic benefits described as “These benefits are sometimes described as “economic,” but use of this term can be problematic. If by “economic” the notion of scarcity is conveyed, then the term is more likely to be appropriate. However, if by “economic” the notion of profitability or cash benefit is conveyed, then the term is not likely to be useful in the public sector context. This use of the term fails to encompass non-cash generating resources that are nonetheless critical to a faithful representation of the operating capacity of public sector entities” point 2.8 of Exposure Draft.

I think that non appropriate for used in the definition for assets, are different, the principal point will be defined and your structure cannot be for used for FASAB for accounting for the net position of a federal entity. I have doubt about this definition I observed that will be similar for aspects integrated that the government and nonprofit entities used in practice, if have some problems I suggest makes consulting in the others regulators for government.

Some definitions that will be observed, for example:

- ICAEW (2011, 22) defined "Assets with element has definition as: a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity."
- Kearney et al (2006, 108) comments that "Assets are defined as tangible or intangible items owned by the federal government that could have probable economic benefits that can be obtained or controlled by the federal entity. These assets include cash, investments, real and personal properties, and also claims of the federal entity against nonfederal entities or parties (e.g. accounts receivable, investment receivable and amounts due from federal advances and advances or prepayments to these nonfederal entities or parties) With some exceptions, assets are initially recorded as purchased costs or donated values.
- Benedict et al (2008, 49) assets are defined as economic resources acquired and controlled by the business and from which the business will obtain future benefit. As time passes, the amount of the future benefit might be reduced so that the amount recorded as an asset might also be reduced.

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?

I think that used to associate an asset with a specific entity will be have control, risks and rewards, these are control, is very important for public entities, but I have doubt about used for access to rights, when comments about restrict, deny I have doubt, principally in how´ll make control for this, how´s function of auditing for this application.

In the point 2.38 “In addition to being able to access benefits, the entity must also be able to control others’ access to them by denying, restricting, or otherwise regulating their access. One standard setter illustrates this by contrasting the examples of outer space and natural resources under government land. The government can obtain benefits from using the outer space resource, but it is not an asset of the government because the government cannot restrict or regulate the access of others. The government also has the benefits of the natural resource under government land, but, in this case, the entity is able to regulate and restrict the access of others to the benefits. In this latter example, the natural resource might qualify as an asset of the government.” I didn´t understand of the use of why access benefits, for the government and your structure isn´t used public information for control is very important observed if this point makes some impact as internal laws and rules for local or federal public entities, this point is very difficult for understanding, transparency and clarified of use of governmental information. The IPSAS will be observed others internal information about this subject.

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?

In the point 2.47 I don´t know if for the government is most useful this specific point, generally past events don´t included in the budget, in the financial reporting I don´t know if is practical for the public sector this is very important for the companies that this resource. This idea is related with point 2.52 “… This view depends only on the condition that the rights to the benefits exist at the reporting date. It does not require a past transaction or event to have occurred to crystallize the rights as 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?

I think that this point is better discussed when finished discussion Exposure Draft 1 for IPSAS.

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?

I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot included these questions, isn´t responsibility of IPSASB-IFAC.

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?

This comments is similar for Assets (comments 1) I think that the concepts for used for Assets will be used for Liabilities included observations, used for transparency, clarified of used IPSASB, laws, regulations and jurisdictions.

Kearney et al (2006, 108) comments that FASAB and Office Management and Budget define a federal liability as a probable and measurable future outflow of resources arising from past transactions or events. The liabilities grouping of accounts include an enormity of transactions and events, such as accounts payables, end-of-period accrued liabilities, federal commitments and guarantees legally assumed or entered into, contingencies, damages from litigious proceedings, and so on."

ICAEW (2011, 22) defines liability as: "a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of an entity´s resources."

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?

I think that is very difficult ability a specific party outside the reporting entity, the regulations and jurisdictions of each country can be problem for your application as essential characteristic, the IFAC – IPSASB will be observed the point 2.38 of this exposure draft.

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

I agree, but this point isn´t responsibility of the IFAC-IPSASB can be used as practice statement not IPSASB, I think this, I don´t know.

(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?

The point 3.28 comments that "The absence of a realistic alternative to avoid the obligation is another potential essential characteristic in developing the link between the entity and the obligation as: (a) Enforceable contractual, constructive, and equitable obligations. (b) Enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions. (c) Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw." The realistic alternative to avoid the obligation, this question is very complexity, because included some comments the question 6 principally for contingencies, transparency in the use in the financial reporting, and clarified in relation the information used for public sector.

I have doubt in relation a choose, I think that letter b is better, but I don´t have certain if public sector entity cannot realistically withdraw. What´s definition for realistic for IFAC-IPSASB, I think that is necessary for development this IPSASB.

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?

In the point 3.42 I know that this point is very important for the government but this method isn´t useful for this specific point, generally present events or present value

don´t included in the budget, in the financial reporting. I don´t know if is practical for the public sector this is very important for the companies that this resource. This idea is related with point too, 2.52 "… This view depends only on the condition that the rights to the benefits exist at the reporting date. It does not require a past transaction or event to have occurred to crystallize the rights as an asset" as point 3.43 "This issue is particularly relevant in the case of executory contracts, where the reporting entity may enter into a non-cancellable obligation—suggesting a present obligation, but the other party has material unperformed obligations—suggesting a future 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?

I think that isn´t appropriate intermediate event can be occurred some problems for control and transparency for the entity of public sector. I think that this point is better discussed when finished discussion Exposure Draft 1 for IPSAS.

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

The enforceability of an obligation is most important not essential, I think. This point can be considerable with don´t have control and transparency an obligation can be occur problems for controls in the public sector.

(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?

The definition of a liability can included but I don´t know if more practical in this case.

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?

This comments is the same for number 5 "I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because

the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot contain these questions, isn´t responsibility of IPSASB-IFAC".

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?

Kearney et al (2006, 98) is defined as: "no agency may collect receipts and earn revenues unless specific authorization is provided by Congress. Additionally, an agency may have the authority to collect receipts, but such receipts are unavailable for expenditure by that collecting agency. … Expenses are defined as outflows or other expending of assets or incurring liabilities (or both) from providing goods, rendering services, or carrying out other activities related to an entity´s programs and missions, the benefits from which do not extend beyond the present operating period. Expenses are charged to proprietary-type expense accounts."

I think that initially the use for revenues and expenses definition which inflows and outflows have to observed the impact in the structure of the others IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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?

I think that initially the use for revenues and expenses definition which inflows and outflows have to observed the impact in the structure of the others IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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?

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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?

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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 noncontrolling 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?

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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?

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

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?

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

Specific Matter for Comment 18

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

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

Specific Matter for Comment 19

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

I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.

References:

Kearney, Edward F.; Green, Jeffrey W.; Fernandes, Roldan; Tierney, Cornelius E. Federal Government Auditing. John Wiley:2006 New Jersey.

International Financial Reporting Standards – Certificate Manual ICAEW London: 2011.

Thank you for opportunity for comments this proposals, if you have questions don´t hesitate contact to me, rio1042370@terra.com.br.

Yours Sincerily,

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June 24, 2011

Ms. Stephenie Fox
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, ON M5V 3H2

Dear Ms. Fox:

We are pleased to provide you with Nova Scotia's comments regarding the International Public Sector Accounting Standards Board's Exposure Draft and Consultation Papers regarding the conceptual framework for general purpose financial reporting by public sector entities. We hope you find our comments helpful and we would be pleased to discuss any of these issues in greater detail should you wish. We are interested in monitoring and participating in the development of international public sector accounting standards.

The following pages provide Nova Scotia's detailed responses to the specific matters for comment regarding the exposure draft and two consultation papers. The general position of Nova Scotia is that we are not comfortable with the scope IPSASB is building in the conceptual framework. We feel that the framework is too broad and has not fully considered how accounting standards relate to government/ public sector accountability. It is Nova Scotia's view that standard setting relates to accounting principles and these accounting principles need to consider a public sector entity's fiscal/ financial reporting as its reference point. However, it is important that the standard setter does not step into a role of presuming to have authority over how these fiscal/ financial plans are developed or overstep by being too prescriptive with regard to the standard setter's "requirements". Government must maintain the prerogative to budget, and provide interim reports, based on the relevant information for the particular circumstance. This requires great flexibility and does not need to be subject to standardized accounting principles (i.e. sometimes cash projections are appropriate).

Accounting principles are a critical element of fair presentation of financial statements. Logically, the budget should be presented in a manner that is comparable to the financial statement presentation (to complete the accountability cycle) however the responsibility for this policy decision is the government's.

Nova Scotia views the conceptual framework as stepping into the role of sovereign entities and feel it goes too far.

At a high level, we feel the conceptual framework should acknowledge governments' role in managing public money and their accountability to their citizens and residents to demonstrate if the public money has been used as budgeted. The framework should recognize where governments manage risks

effectively the standards should allow for these strategies to be recognized and disclosed to reflect the substance of the transactions. We feel standard setters are veering away from this position and are attempting to prescribe too much and are starting, in some instances, to overly complicate the financial statements. We would prefer the professional bodies push their membership, including the audit community, to apply standards as they are intended rather than set the standards based largely on what is happening in the private sector when the facts and circumstances are fundamentally different. As professionals we must be held to high standards and emphasize the need for continued application of professional judgment and ethics.

Sincerely,

Byron Rafuse
Associate Deputy Minister & Controller

The Specific Matters for Comment requested in the CP are provided below.

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?

Nova Scotia's comments:

The definition should cover service potential and net cash inflows. The context for inclusion should be that an asset should have "one and/ or the other" benefit. It is not necessary for an asset to have both.

Nova Scotia further feels it is not necessary to go the additional step to include "unconditional rights to receive resources". This opens the door for items that we feel would not be appropriate, largely intangible assets (i.e. capital the future value of all taxation revenue – in the extreme, or capital royalty revenue from a natural resource, renewable or not, that may fluctuate significantly).

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

Nova Scotia's comments:

In Nova Scotia's view, it is critically important that service potential be included. The definition should not require economic benefits because that concept implies cash flow. Many assets of a government may not directly lead to economic benefits but will provide future service potential (i.e. construction of roads, hospitals and schools where there may be no direct cash flow from the asset but service potential is safeguarded with the existence of the asset).

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?

Nova Scotia's comments:

Nova Scotia views control as the key approach. When looking to determine if control exists, consideration might evaluate risks and rewards of ownership or the ability to access (or restrict others' access to) the asset but control is the central concept in our view.

(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?

Nova Scotia's comments:

In Nova Scotia's view this would clearly link a resource to a specific entity however we do not feel this would be enough to warrant financial statement recognition.

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

Nova Scotia's comments:

Nothing significant.

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?

Nova Scotia's comments:

In Nova Scotia's view there should be a past event that occurs prior to recognition. There may need to be standard that anticipates certain assets that were not initiated by a past event (i.e. in Canada crown land is an "asset" that is controlled by virtue of being government, it was not purchased, therefore it is recognized at a nominal value in the financial statements) and how these items should be treated.

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?

Nova Scotia's comments:

It is our opinion that a power is not an asset. Powers become assets when the underlying authority is exercised by government and the associated activity or transaction occurs triggering the obligation on another party that then owes the tax or a fee to government. As residents earn taxable income the respective government accrues assets, however the right to tax or levy fees in itself is not an asset. The tax structure must be in place and there must be residents earning income in the jurisdiction. Therefore, we feel the power must be exercised and there must be an intermediate event whereby residents/ citizens incur the charges.

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?

Nova Scotia's comments:

Nothing significant.

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

Nova Scotia's comments:

Nothing significant.

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.

Nova Scotia's comments:

In Nova Scotia's view the definition of a liability should not cover obligations such as "unconditional obligations to stand ready to insure against loss", "performance obligations" or "obligations to provide access to or forego future resources". It is our position that the first item covers all appropriate liabilities and leaves sufficient room for contingent liabilities where a government has made a specific commitment that could be based on a future event's occurrence.

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

Nova Scotia's comments:

A specific settlement date is not viewed as being essential however it seems necessary to have a time frame associated with the settlement of a liability. It must be known that there is a claim and that there is a likely settlement in the future. This date does not need to be in the near term (i.e. one year) as many issues may take some time to reach final agreement (i.e. lawsuit settlement, or flood damage) however it must be known that there is a process being followed that does have a logical end date.

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?

Nova Scotia's comments:

In our opinion this should be part of the definition to ensure this is very clear. An individual, entity, or group must be identified as to who will be settled with to fulfill the responsibility underlying the liability.

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

Nova Scotia's comments:

Yes, Nova Scotia agrees with this. The point at which government no longer has discretion to avoid a future settlement/ payment is a very important characteristic.

(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?

Nova Scotia's comments:

Nova Scotia tentatively supports the third approach whereby enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw. Nova Scotia's "tentative" position is based on the interpretation of "equitable" obligations. A "moral" liability is a concept that Nova Scotia really sees little practical application and would consider its removal. Such moral obligations rarely meet the definition of a liability in our experience (and our best estimation as these circumstances do not arise often in our province). Moral obligations seem to be driven by fiscal capacity, and the fiscal position of a jurisdiction will dictate what is possible in most cases, therefore discretion remains with government to assess what is possible before any party is really "owed" anything. Therefore, Nova Scotia is reasonably supportive of including this concept however the guidance/ recognition standards must be clear on its application, and it should only be applied in quite rare circumstances (for sub-national jurisdictions anyway).

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?

Nova Scotia's comments:

Nova Scotia feels there should be reference to a "past event" that has 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?

Nova Scotia's comments:

An appropriate intermediate event is seen as appropriate in considering government obligations because there are constructive/ equitable obligations that can arise that are not of a legally enforceable nature.

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

Nova Scotia's comments:

If by enforceability we mean legally enforceable Nova Scotia's position is no, this is not an essential characteristic of a liability. The concept of the point where government no longer has discretion to avoid settlement is essential and this can be quite different than something being "enforceable".

(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?

Nova Scotia's comments:

Yes, we feel that the definition of a liability should include an assumption about the role that sovereign power plans. Typically, we would expect the legislation in effect at the reporting date

would be the appropriate reference point with some allowance for changes: (1) between the statement date and the release date, as well; (2) if there are any changes that have been announced and/ or approved but may not be effective (i.e. may not have received royal assent).

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?

Nova Scotia's comments:
Nothing significant.

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

Nova Scotia's comments:
Nothing significant.

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)?

Nova Scotia's comments:
Nova Scotia sees merit in determining revenues and expenses by identifying which inflows and outflows are "applicable to" the current period however we do not have a significant issue with an asset and liability-led approach. Both methods, with proper framework and strong definitions, should lead to a similar place. We do feel that changes in the resources of the Province should flow through the statement of operations as a financial measure of that fiscal period.

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

Nova Scotia's comments:
We feel that the conceptual framework should provide the necessary flexibility to reflect the true substance of a transaction without requiring significant management/ professional time to "structure-in" the terms and conditions to manage the recognition of the arrangement. There are non-exchange transactions that are entered (as a provider or recipient) where the intent is to provide a one-time cash flow (i.e. benefit) that will provide a number of years' support to the recipient. If the language is not precise this can cause issues. Nova Scotia feels such arrangement typically result in liabilities and we expect the framework and accounting principles to support such determinations.

Specific Matter for Comment 12
(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Nova Scotia's comments:

Nova Scotia feels these transactions should flow through revenues and expenses as these are indicators of the change in resources attributed to the fiscal year. We are not supportive of accounting for transactions directly through net assets/ net debt.

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

Nova Scotia's comments:

We do not feel this is necessary.

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?

Nova Scotia's comments:

Nothing significant.

(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?

Nova Scotia's comments:

IPSASB needs to ensure they keep focus on the full accountability cycle of a government. Governments manage public money and are accountable to their citizens and residents. Financial statements need to show the fiscal position of the government at a point in time and the result of the operations between reporting dates. Where governments manage risks effectively there must be room for these strategies to be disclosed and for the recognition to be boiled down to the essential results of these strategies. We feel standard setters are veering away from this direction and are introducing items that are not completely necessary in all cases. In summary we would push the standard setters to not set the standards for the lowest common denominator within the professions but hold the professional to high standards and emphasize the need for continued professionalism and strong ethics.

Specific Matter for Comment 14

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

Nova Scotia's comments:

The definition of assets and liabilities need to provide the ability to be interpreted to permit deferrals when transactions are mutually agreed by the transacting parties to be intended for multiple years of benefits.

(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.

Nova Scotia's comments:

Nova Scotia views deferrals to be sub-components of assets and liabilities. We do not support the creation of new 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?

Nova Scotia's comments:

These definitions appear to be 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?

Nova Scotia's comments:

Nova Scotia views net assets/ net liabilities as a 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?

Nova Scotia's comments:

Nova Scotia does not see this as being necessary.

(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?

Nova Scotia's comments:

Nothing significant. Nova Scotia would view any "ownership" interest concept as relating to the accumulated surplus/ deficit position of a jurisdiction, not the net asset/ liability position. This concept is not viewed as being particularly relevant in the public sector however when the result would potentially be recognizing certain transactions directly to "equity". This concept would result in the province being better or worse off and in such a case that transaction would be expected to flow through the statement of operations.

Specific Matter for Comment 16

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

Nova Scotia's comments:

We do not feel these need to be defined as separate elements.

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

Nova Scotia's comments:

We have not given this idea sufficient consideration to comment.

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?

Nova Scotia's comments:

Nova Scotia would support the requirement of a neutral judgment whether an element exists at the reporting date based on an assessment of all reasonably available evidence. The principle of conservatism we feel is not appropriate to include in the conceptual framework. We feel the neutral judgment will still factor in likelihood of occurrence with other facts to lead to the best estimation of management.

(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?

Nova Scotia's comments:

We do not agree with the threshold approach.

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

Nova Scotia's comments:

Yes, I think a neutral judgment approach will result in proper derecognition. We would support discussion surrounding derecognition of a liability and how the nature of the liability would impact one's professional assessment of when derecognition would be appropriate. Derecognition of an asset is somewhat different in that management has more control over when they no longer expect to receive benefit from an asset but there is less control over when a liability is no longer expected to be settled.

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

Nova Scotia's comments:

Nova Scotia feels the definition of the elements does not need to include the recognition criteria. The two concepts are closely linked so we do not feel one aspect of the framework can be completed in isolation but we do see them as separate issues.

Consultation Paper

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

Manitoba

Finance **Comptroller's Division**

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June 15th, 2011

Technical Director
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Dear Sir/Madam:

Re: Consultation Papers – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Thank you for the opportunity to comment on the two Consultation Papers covering Elements and Recognition in Financial Statements and Measurement of Assets and Liabilities in Financial Statements.

The Manitoba Government supports your initiative to develop a Conceptual Framework which can be applied in developing future International Public Sector Accounting Standards (IPSAS) for General Purpose Financial Statements (GPFS). We understand that IPSASB has not provided preliminary views on the issues so as to solicit as many comments as possible from the various stakeholders. We have chosen to comment on the two Consultation Papers together.

The final development of the Conceptual Framework should be driven by the primary objective of General Purpose Financial Statements (GPFS). The objective of financial reporting in the public sector should be to provide information to users for:

1. Evaluating the government's management of its financial resources in the accounting period; and
2. Assessing whether the resources were managed within the legislated limits.

The primary user of GPFS in the public sector is the general public. The goal of the Conceptual Framework should be to provide useful information to the users of GPFS. The Conceptual Framework should strive for the proper balance between IPSASB's qualitative characteristics for financial information. Financial information in GPFS should faithfully represent the economic position of the government as best as possible but it should also be verifiable and comparable between jurisdictions. But just as important GPFS should provide relevant, timely and understandable information to the general public.

We wish begin by stating that only 4 elements are required in a Conceptual Framework for public sector accounting:

1. Assets;
2. Liabilities;
3. Revenues; and
4. Expenses.

The Consultation Paper discusses other possible elements such as deferred outflows and inflows and ownership or equity interests. The Conceptual Framework should allow for the deferral of cash outflows and inflows. This would better align financial reporting with the objective of determining whether resources were managed within approved budgets. However deferred outflows and inflows should only be allowed on the statement of financial position if they meet the characteristics of a liability or asset.

The concepts of ownership and equity interests are inappropriate for a Conceptual Framework for public sector accounting. We are of the view that any net asset position simply represents resources that can be used to provide services to the general public in the next accounting period. A net liability position represents the requirement to raise additional net revenues for past operations in future accounting periods.

ASSETS

Assets should have **all three** essential characteristics:

1. Embody a future benefit that allows a government to generate future net cash flows or provide goods and services;
2. The government can control access to the benefit or restrict access to others; and
3. A transaction or event giving rise to government's control of the benefit has already occurred.

1) The Substance of an Asset:

Assets are economic benefits that either have service potential or generate net cash flows.

The definition of a benefit should also include the unconditional right to receive resources in the future. Protection against losses through insurance coverage would be an example of an unconditional right to receive resources in the future. This however should not include contracts for the future delivery of goods and services at a specified price. This does not represent an unconditional right to receive resources in the future since the government would also has an equal unconditional promise to deliver economic resources in the future. If the public entity has negotiated a favorable price for the future delivery of goods and services then the entity's prudent management of its resources will be evident when it provides the services to the public.

2) How to Determine if it is an Asset of the Reporting Entity:

To be considered an asset of the government, the government has to be able to control the economic benefit. Control is described as the ability of the government to utilize the resource for its benefit and to determine the nature and manner of its use. Control could also be further defined as having the ability to determine how to use the assets (i.e. access to rights); the ability to deny others access to the economic benefit (i.e. restrict or deny access of others); and having enforceable claims to a resource (i.e. enforceable claim to benefits). These are all refinements on the concept of control.

It is important to note that a government's control, enforceable claims to benefits or ability to deny, restrict, or otherwise regulate others' access only serves to link a public sector entity to an economic benefit. For the economic benefit to be considered to be an asset under the control of the government it is necessary to have a prior transaction or event.

3) Past Transaction or Event

The Consultation Paper discusses if the occurrence of a past event or transaction, which gave rise to the government's control of the economic benefit, is necessary, or is it simply sufficient for the economic resource to be present at the balance sheet date. We strongly believe that the occurrence of a past transaction or event, which gave rise to the government's control of the economic benefit, is a necessary characteristic of an asset.

The Consultation Paper makes the argument that the inability to identify a past transaction may lead to the non-recognition of an asset, or past transaction or events may have resulted in an asset that no longer exists. There is always an event or transaction that led to the government's control of the asset. For most assets the

transaction or event is very easy to identify. The vast majority of public sector assets result from incurring expenditures that will be used to provide services to the public at a later date.

Another example of a past transaction or event be the government granting access to natural resources to another party. An example would be royalties collected by governments for the extraction of timber, minerals and other natural resources. We would not view it appropriate for governments to accrue natural resources as an asset at the reporting date.

If the Conceptual Framework required governments to accrue natural resources it would not only be difficult to verify but the information would be of little relevance without also accruing a liability for extracting the resources. This would require governments to develop complex and very subjective estimates. This would likely reduce the timeliness of the information and the comparability of the information between jurisdictions. The information would likely not be understood by the general public and it really doesn't provide any relevant information in assessing the government's management of its financial resources.

We do not agree with the view that a government's right to the benefits from future taxes and fees represents a perpetual asset at every reporting date, even if it was possible to place a value on such an asset. We are of the view that the authority of governments to tax or raise fees does not represent an asset. The authority to raise taxes and levy fees is not a right to future benefits until the government has exercised that right. An asset exists at the reporting date only after the government has passed the legislation and levied the tax for the fiscal period, or has provided the services to the users for a fee.

4) Measurement

We view historical cost as the most appropriate measurement basis for the public sector. The objective of financial reporting is to provide information to the users. Historical cost is verifiable and understood by the users. This enhances the qualitative characteristics of the financial information to the users.

Replacement cost provides more relevant information on capital assets for decision makers. Replacement cost would result in higher amortization expense. The higher amortization expense would better represent the actual cost to the public of using the asset in the accounting period. In a balanced budget environment revenues would be raised to match the higher amortization charges, a non-cash expense, thereby creating larger cash reserves to replace the asset at the end of its useful life.

The difficulty with replacement cost is that for some assets it is very problematic to determine or estimate the replacement cost of an asset. This is especially true for infrastructure assets such as water and sewer treatment plants, roads, streets, bridges and other transportation infrastructure. Changes in technology and regulatory standards further complicate determining the replacement cost of an asset. This would likely reduce the timeliness, comparability and verifiability of financial information.

Market value would be an appropriate measurement basis for some assets on a limited basis such as investments that are traded publicly and have a quoted market price.

LIABILITIES

Obligations are not liabilities unless they have all three essential characteristics:

1. They embody a duty or responsibility to others leaving the government little or no discretion to avoid settlement of the obligation;
2. The settlement of the obligation entails the transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on the occurrence of a specified event, or on demand; and
3. The transactions obligating the government have already occurred.

1) The Substance of a Liability

We agree that the existence of an obligation is a required characteristic to define a liability. An obligation is a duty or responsibility to act or perform in a particular way to another party. The obligation to the other party requires settlement through the future transfer of assets, provision of goods and services or other form of economic settlement.

While all liabilities are obligations, not all obligations are liabilities. An obligation to other parties, in and of itself, is not a liability.

The Consultation Paper distinguished between unconditional and conditional obligations. Conditional obligations are not viewed as liabilities at the reporting date because the condition obligating the government has not occurred. The Public Sector Accounting Board (PSAB) in Canada uses the term contingent liability to describe a conditional obligation. Contingent liabilities are not recorded as a liability until the condition or confirming event occurs, or is viewed as likely to occur.

The Consultation Paper describes unconditional obligations as having uncertainty as to whether the obligation will even have to be settled, but no uncertainty as to existence of the obligation. Our view is that if the obligation does not embody the future sacrifice of assets then if fails to meet an essential characteristic of a liability. If the settlement of the obligation is uncertain, because it is dependent on a future event, then it is a conditional obligation or contingent liability.

Guarantees against losses for floods, crop failures, export receivables, etc. are described as stand-ready obligations. We view a stand-ready obligation to compensate a future loss as a conditional obligation that should be accrued as a liability only when the insurable loss or other necessary conditions occurs, or is viewed as likely to occur.

A performance obligation is an obligation in an agreement between the government and another party to transfer assets or provide a service to the other party. Agreements by the government to provide access to assets to other parties or to forgo future assets are also performance obligations. The PSAB refers to performance obligations as contractual obligations or commitments. We agree that performance obligations are obligations since they represent a duty or responsibility to others and embody the future sacrifice of assets. However to be recorded as a liability they have to be present obligations at the reporting date. Commitments to future expenditures would not be a liability since the government still has realistic alternatives to change or avoid the obligation through its own actions.

We view a settlement date as a required characteristic of a liability. If there is no settlement date then the obligation can't be a liability since there will be no future sacrifice of economic benefits. In most cases the settlement date is on demand or on the occurrence of a specified event. The government does not need to determine the exact date the liability will be settled. The determination of the specified event and its eventual occurrence is sufficient to be recognized as a settlement date. For example governments who provide severance benefits to their employees do not know the exact date the employee will leave. But there is no uncertainty that one day the employee will end his employment with the government and the obligation will have to be settled.

2) Liability of the Reporting Entity

The absence of a realistic alternative to avoid the settlement of the obligation is an essential characteristic of a liability. The characteristic links the obligation to the public sector entity. The absence of a realistic alternative should not only include legally enforceable obligations but also situations where the government has created a valid expectation among others that the obligation will be settled. Situations where the government still has choice on how to act would not represent a lack of discretion or reasonable alternatives to avoid the obligation. Budgeted acquisitions or future program expenditures are not present obligations since the government still has discretion to avoid the obligation through its own actions.

3) Liability at the Reporting Date

Governments have many future obligations but only present obligations at the reporting date should be accrued as liabilities. The event or transaction obligating the government must have already occurred as of the reporting date to be accrued as a liability. In most situations the event can be easily identified. For exchange transaction

the goods or services, including the services of employees, have already been provided to the government. Commitments to future program expenditures are not liabilities at the reporting date because the government still has the discretion to avoid the obligation through its own actions. Contractual obligations are also not liabilities unless the contracted party has provided good and/or services by the reporting date.

At times the government may have conditional obligations. The determination of whether or not the conditional obligation is a liability at the reporting date will be confirmed by a future event that is not within the government's control. If the occurrence of the condition or future event is not determinable then the government does not have a liability at the reporting date. If the confirming event occurs before the release of the GPFS, or is even simply likely to happen, then the conditional obligation is a present obligation at the reporting date and should be recorded as a liability.

REVENUES & EXPENSES

Most of this section was devoted to contrasting the **Asset & Liability Led (A&L) Approach** against the **Revenue and Expense Led (R&E) Approach**. The approach that you prefer determines what you consider to be the primary elements of GPFS. Under the R&E approach revenues and expenses are the primary elements and are seen as inflows and outflows that are applicable to the period. In contrast, under the A&L approach changes in your assets and liabilities determines the operating results for the period. Changes in the assets and liabilities are simply seen as inflows and outflows during the period.

Both approaches have their strong points. Supporters of both approaches do agree that the statement of financial performance is important in meeting the objectives of financial reporting in the public sector. The objective of financial reporting in the public sector is to provide information to the users for:

1. Evaluating the government's management of its financial resources in the accounting period; and
2. Assessing whether the resources were managed within the legislated limits.

The first objective suggests the need for governments to properly manage its physical assets and liabilities as best as possible. The function of governments is to provide public goods and services. It can thus be argued that financial statements should be grounded in real economic substance so as to provide users with relevant information on the net resources available for future operations. The A&L approach is better suited for meeting the first objective of financial reporting.

The R&E approach is favored because it reduces volatility on the statement of performance. The R&E approach is better aligned with the second objective of financial reporting. The second objective views the budget as playing the most significant role in the accountability cycle of the government. The budget is the publicly communicated document against which the general public evaluates the operating results for the period.

It is our view that the Conceptual Framework should be equally aligned with both objectives. We prefer the R&E approach but we feel it is important to assign cash flows to the applicable period. However we also strongly believe that the statement of financial position should only include assets and liabilities that have real economic substance. Deferred inflows and outflows should only be included on the statement of financial position if they meet the characteristics we previously described for liabilities and assets. We therefore do not see any need to include deferred outflows and deferred inflows as separate elements of financial statements.

As an example of our suggested approach we will use a transfer to the government received on the last day of a fiscal year. The purpose of the grant can be either for operating a specific program with stipulated objectives; or acquiring or constructing a capital asset.

Under the A&L approach the government's net assets have increased by the amount of the transfer. The transfer is reflected as revenue on the statement of performance even though the government has not incurred an expenditure towards the purpose of the transfer. Under the R&E approach the transfer would be deferred thereby having no net effect on the net assets at the reporting date. The deferred inflow can be brought into income and be properly matched with the related expenditures in future accounting periods.

Using our example it is our view that the transfer represents an asset to the government at year end but also meets the criteria of a liability.

1. The government has a duty or responsibility to the transferor leaving the government little or no discretion but to use the funds as stipulated by the transferor.
2. The settlement of the obligation entails the expenditure of the funds within the timeframe stipulated by the transferor.
3. The transactions obligating the government have already occurred. The government was eligible for the transfer and/ transfer has been received or is receivable as of the reporting date. This would make the transfer a present obligation.

The Conceptual Framework chosen should try to balance the two objectives of financial reporting as best as possible. Both objectives are important and cannot be properly balanced by selecting one approach over the other. We believe that the approach selected has to provide useful information to users for both objectives.

Other Comments

We would again like to express our concerns regarding the proposed scope of the Conceptual Framework. We like to emphasize that the type and extent of information on service delivery performance should be at the government's discretion. This type of information is highly subjective and is based on assumptions and estimates. Including this information within the scope of the Conceptual Framework will expose the information to the same level of assurance as GPFS. This will create significant issues for governments as well as the audit community.

We would like to again thank you for the opportunity to comment on the Conceptual Framework.

Yours truly,

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