NSW GOVERNMENT | The Treasury

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

20 May 11

Dear Ms Fox

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

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

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

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

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

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

Detailed comments on the Consultation Paper are attached.

Yours sincerely

R Williams

Robert Williams
for Secretary

ATTACHMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) No other issue has been identified.

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

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

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

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

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

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

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

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

No additional characteristic or other issue has been identified.

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

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

Specific Matter for Comment 15

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

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

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

(c) No other issue has been identified.

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

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

(b) Not applicable.

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

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

(b) Not applicable.

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

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

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

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

Newfoundland Labrador

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

June 15, 2011

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

Dear Ms. Fox:

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

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

General Comments

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

Assets

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

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

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

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

Liabilities

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

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

Financial Performance and Other Potential Elements

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

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

Yours truly,

RONALD A. WILLIAMS, CA
Comptroller General of Finance

cc: Terry Paddon, Deputy Minister of Finance

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The Institute of Chartered Accountants of Pakistan

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June 15, 2011

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

Dear Sir,

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

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

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

Yours faithfully,

Haroon Tabraze
Director Technical Services
The Institute of Chartered Accountants of Pakistan
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COMMENTS ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

Specific Matter for Comment 1:

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

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

Comments

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

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

Comments

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

Specific Matter for Comment 2

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

Comments

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

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

Comments

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

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

Comments

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

Specific Matter for Comment 3

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

Comments

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

Specific Matter for Comment 4

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

Comments

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

Specific Matter for Comment 5

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

Comments

None

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

Comments

None

Specific Matter for Comment 6

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

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

Comments

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

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

Comments

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

Specific Matter for Comment 7

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

Comments

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

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

Comments

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

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

Comments

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

Specific Matter for Comment 8

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

Comments

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

Specific Matter for Comment 9

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

Comments

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

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

Comments

Yes, enforceability is an essential characteristic.

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

Comments

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

Specific Matter for Comment 10

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

Comments

None

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

Comments

None

Specific Matter for Comment 11

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

Comments

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

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

Comments

Argument in 4.21 is the most significant one.

Specific Matter for Comment 12

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

Comments

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

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

Comments

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

Specific Matter for Comment 13

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

Comments

None

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

Comments

None

Specific Matter for Comment 14

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

Comments

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

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

Comments

Most appropriate approach is (a) Defined as separate elements

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

Comments

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

Specific Matter for Comment 15

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

Comments

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

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

Comments

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

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

Comments

None

Specific Matter for Comment 16

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

Comments

The transactions should be included as subclassification of net assets.

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

Comments

NA (Not Applicable)

Specific Matter for Comment 17

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

Comments

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

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

Comments

NA

Specific Matter for Comment 18

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

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

Specific Matter for Comment 19

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

Comments

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

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June 10, 2011

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

Dear Ms Fox

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

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

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

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

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

INSTITUT DER WIRTSCHAFTSPRÜFER

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

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

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

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

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

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

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Gillian Waldbauer
Technical Manager International Affairs

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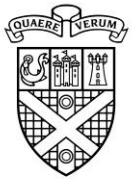
OF SCOTLAND



Response from
The Institute of Chartered Accountants of Scotland to the
International Public Sector Accounting Standards Board

CONCEPTUAL FRAMEWORK: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

15 June 2011

INTRODUCTION AND KEY POINTS

Introduction

The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes 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 Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.

The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

- While we understand that the IPSASB conceptual framework project is not a convergence project, we would support a Conceptual Framework for public sector entities which only departs from the IASB's Conceptual Framework in areas where there is a clearly justified public sector specific reason for doing so. The timing of the IPSASB project means that key decisions about the Conceptual Framework may be made in advance of commentators' deliberations and IASB decisions regarding its developing Conceptual Framework and as such there may be a risk that the IPSASB Conceptual Framework does not fully reflect these wider deliberations. For example, an IASB discussion paper on Phase B of its conceptual framework project is expected in June 2011, six months later than the publication of this consultation paper on the same topic. We would therefore prefer publication of an exposure daft by the IPSASB on 'Elements and Recognition in Financial Statements' to include consideration of any material published by the IASB in relation to Phase B of its conceptual framework project.

- In our responses, we have attempted to identify and draw attention to developments relating to the IASB's conceptual framework project, highlighting how we perceive these should influence the IPSASB's conceptual framework project. One area where we believe that the direction of travel of the IASB may not be suitable for the public sector is its tentative working definition of an asset: We favour the control approach rather than the access rights approach, favoured by the IASB, which tends to focus more on the legal form of a transaction than on its substance.

Our responses to the specific matters for comment are set out in the following section of our exposure draft.

COMMENTS ON THE CONSULTATION PAPER

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?

Response

(a) We agree that the definition of an asset should cover the types of benefit listed in specific matter for comment 1.

(b) We support the use of economic benefits and service potential in the definition of an asset, rather than the single term economic benefits. We understand the reasons why some standard setters encompass service potential within their definition of economic benefits. However, we believe that for public sector entities service potential is a key feature of their asset base.

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?

Response

(a) The intention of the IPSASB's exposure draft on "Service concession arrangements: grantor" (February 2010) is to mirror Interpretation 12 of the International Financial Reporting Interpretations Committee "IFRIC 12: service concession arrangements", which gives guidance on the accounting by operators in service concession arrangements. In mirroring IFRIC 12 the proposed IPSASB standard uses the control approach. We supported this approach in our submissions to the IPSASB on service concession arrangements and believe it better reflects the substance of service concession arrangements relative to the risks and rewards approach. We continue to support the control approach.

(b) We understand that the IASB, in taking forward other aspects of its conceptual framework project, may move away from the control approach to one that is based on legal ownership and which would be consistent with the approach referred to at (a)(iii) of specific matter for comment 2.

The IASB, in agreement with FASB, have tentatively adopted the following working definition of an asset for its conceptual framework project:

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

Although we would favour consistency between the IPSASB's Conceptual Framework and the IASB's Conceptual Framework we do not believe that an approach based on legal ownership would have the desired impact on public sector entity financial statements. We also do not agree with the argument that standards should be developed to avoid difficult judgements: making judgements is a key aspect of the role of the professional accountant.

(c) We have no other comments on specific matter for comment 2.

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?

Response
We would be comfortable if the definition of an asset referred to the occurrence of a past event, as in reality we believe the occurrence of a past event would be inevitable. However, the IASB's tentative working definition of an asset indicates that current thinking is moving away from reference to the occurrence of a past event. Therefore, we would prefer the definition of an asset which is consistent with the IASB's definition, when that is finally determined.

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?

Response
We would tend to support a 'power view' rather than a 'rights view' with reference to the creation of an asset. In the example given, we believe that a government entity would need to exercise its power to levy a tax before an asset (i.e. a debtor) could be created. We do not agree that the right of an entity to future benefits from taxes creates an asset. Issues not dealt with in this consultation paper would arise surrounding the completeness and collectability of the resulting debtor.

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

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

Response
We have no other matters to raise on the definition of an asset.

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?

Response
(a) We believe the definition of a liability should only cover obligations to provide assets to or forego resources. In our view the recognition of other types of obligations would distort the reported performance and financial position of public sector entities.

(b) We do not believe that the requirement for a settlement date is an essential characteristic of a liability. We believe that this would lead to public sector entities understating their liabilities.

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?

Response
(a) We believe that there are likely to be circumstances where an entity is obligated to a specific party but does not know the identity of that party, for example, in the UK the health service provides for incidents incurred but not reported which may give rise to a medical negligence claim under IAS 37 'Provisions, contingent liabilities and contingent assets'. In such circumstances it may not always be possible to identify who may submit a claim as a result of an incident.

We do not agree that the example given, in paragraph 3.25, of a liability being due where there is no identified party outside the reporting entity is a robust one. The scenario would not appear to us to give rise to a liability even if a contractor had been identified. If a reporting entity has environmental responsibilities, expenditure in meeting those responsibilities would be part of its ongoing activities with no obligation to transfer resources to the contractor until the contractor undertaking the work had fulfilled their contractual obligations. If a reporting entity has received a fine for creating environmental damage, then a liability would arise at a point in the legal process and the fine would be payable to the court.

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

(c) We believe that the second approach in paragraph 3.28 is appropriate for public sector entities. We do not believe the first approach is correct as it would exclude constructive obligations which are not legally enforceable. However, we envisage that a constructive obligation which is not legally enforceable is one which a public sector entity could not realistically withdraw from. We do not believe the third approach is correct and this could encompass political commitments which we do not believe should give rise to liabilities.

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?

Response
We understand that IASB, in agreement with FASB, have tentatively developed the following working definition of a liability as part of stage b of its conceptual framework project:

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

This indicates that current thinking is moving away from reference to the occurrence of a past event. We would be comfortable if the definition of a liability continued to refer to the occurrence of a past event, as in reality we believe the occurrence of a past event would be inevitable. However, we would ultimately prefer a definition, in this regard, which is consistent with the approach likely to be adopted by the IASB.

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?

Response
(a) We would tend towards a 'power view' by reference to the legal position at the reporting date in respect of establishing liabilities arising from non-exchange transactions.

(b) We believe that a liability can arise from either a constructive or legal obligation. With regard to exchange transactions we do not believe that there are any special considerations for public sector entities compared to commercial entities.

(c) We would support the definition of a liability arising from a non-exchange transaction to be made with reference to whether a legal or constructive obligation exists 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?

(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

We have no additional comments to make.

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?

Response

(a) We would support an asset and liability-led approach to revenues and expenses.

(b) This is our preferred approach as we believe it better reflects public sector entities stewardship responsibilities. It is also consistent with developments in accounting practice more generally.

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?

Response

(a) We believe that transactions with residual/equity interests should be excluded from revenues and expenses.

(b) We believe that definitions of revenue and expense should be limited to specific types of activities associated with operations, however described. This view does not preclude the inclusion of unrealised gains and unrealised losses within statements of financial performance.

Specific matter for comment 13

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

(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

We have no additional comments to make.

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?

Response

(a) We agree that deferrals need to be identified on the statement of financial position in some way.

(b) We favour option (b)(iii) whereby deferrals are included as sub-components of net assets/ liabilities.

(c) Not applicable as we support option (b)(iii) over option (b)(i).

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?

Response

(a) We consider net assets/net liabilities to be a residual interest.

(b) We believe that the nature of the residual interest should be made clear in the financial statements.

(c) We have no additional issues to raise.

Specific matter for comment 16

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

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

Response

(a) We agree that transactions with residual/equity interests should be defined as separate elements.

(b) We support the approach taken by the UK Accounting Standards Board in its 'Statement of principles for financial reporting: interpretation for public benefit entities' (2007). Chapter 4 of the Interpretation refers to transactions with residual interests as being contributions establishing a financial interest in the residual interest and distributions to holders of a financial interest in the residual interest. Chapter 4 also defines both of these elements.

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?

Response

(a) We believe measurement uncertainty should be addressed by requiring a neutral judgement about whether an element exists. As referred to in the consultation paper, this approach will better meet the qualitative characteristics of faithful representation, relevance and comparability.

(b) Not applicable, we support the neutral judgement approach.

Specific matter for comment 18

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

Response

We believe that an asset or liability should be de-recognised if the recognition criteria are no longer met. Therefore, we support uniform evidence thresholds for initial recognition, continuing recognition and de-recognition.

Specific matter for comment 19

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

Response

We believe that recognition criteria should be separate from element definitions. We support this on the grounds that it will provide a clearer framework for accounts' preparers to apply.

Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)
Conseil suisse de présentation des comptes publics (CSPCP)
Commissione svizzera per la presentazione della contabilità pubblica (CSPCP)
Swiss Public Sector Financial Reporting Advisory Committee

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

Lausanne, June 7, 2011

Swiss Comments to
Consultation Paper Conceptual Framework, Phase 2

Dear Stephenie,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to the Phase 2 of the Conceptual Framework.

We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP

Prof Nils Soguel, President

Sonja Ziehli, Secretary

Swiss Comments to the Phase 2 of the CF

Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)
Conseil suisse de présentation des comptes publics (CSPCP)
Commissione svizzera per la presentazione della contabilità pubblica (CSPCP)
Swiss Public Sector Financial Reporting Advisory Committee

Swiss Comments to the Consultation Paper

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements Phase 2: Consultation Paper

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1. Introduction

During its meeting on May 23, 2011, the Swiss Public Sector Financial Reporting Advisory Committee agreed upon the following statement for the attention of the IPSAS Board. The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPSP) was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level. One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

2. Fundamental Comments on the Consultation Paper

The textual content of the *Consultation Paper* is felt to be very difficult to understand. In many cases the questions are not clear, which makes it very difficult to answer them.

As this *Consultation Paper* is an element of the *Conceptual Framework*, it is understandable that the content is of a fairly theoretical nature. However the manner, in which the text was written, is far too abstract. Therefore a more comprehensible version should again be circulated for comment, at the latest in the form of the *Exposure Draft*.

3. Detailed Comments on the Specific Matters for Comment

3.1 Specific Matter for Comment 1

3.1.1 (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?

Yes. But the question remains unanswered whether the definition is complete in respect of the capitalisation of Capital grants (Capital grants are monetary benefits, with which for the recipient of the grants long-term assets with investment character are constituted). It would be desirable, if the expression „*unconditional rights*" could be further specified.

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

(i) Economic benefits and service potential; or

(ii) Economic benefits?

Both expressions – „*Economic benefits*„ and „*Service potential*" – should be used.

3.2 Specific Matter for Comment 2

3.2.1 (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?

It should be possible to use all the approaches. They should then be defined according to the situation in the relevant IPSAS. Even if it seems obvious, it is pointed out that the approaches are in any event not to be used cumulatively.

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

Yes, e.g. for the special case of the investment grants given (see also Heading 3.1.1).

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

No, no additional requirements are apparent.

3.3 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 use of the expression *„Past event"* is regarded as a useful supplement to delimit a case better from future events. In this connection it is pointed out that it seems somewhat of a simplification to define an *„asset"* as a resource. In particular by reference to the economic sense of the expression, as is discussed in the *Consultation Paper* under Heading 2.12 ff. By resource in the economic sense is understood the production factors *labour*, *capital* and *land*. If an *„asset"* is defined on this basis, liquid funds and financial investments are excluded. In fact liquid funds and financial investments are only the financial tools to acquire a resource. They are therefore not resources in the economic sense.

3.4 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?

In the public sector the criterion as an asset is fulfilled as soon as "*powers are exercised*". In the illustration on Page 27 of the *Consultation Paper* this corresponds with the step "*Tax is assessed or application approved*". In our view there is no upstream "*intermediate event*".

3.5 Specific Matter for Comment 5

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

No, no additional characteristics are apparent.

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

Yes. A first relevant topic concerns the difference between *Administrative Assets* and *Non Administrative Assets*, which is relevant for the public sector: *Administrative Assets are defined as all assets that are earmarked for the fulfilment of public-sector duties. Administrative Assets are thus characterized by a permanent dedication to a purpose established by the public sector. Administrative Assets are all those assets that relate to the provision of public services and that have a useful life extending over several fiscal years. In contrast, assets can be considered realizable (Non Administrative Assets) if they can be liquidated without violating specific legal (public-law) obligations.* For 30 years the difference between Administrative Assets and Non Administrative Assets has been used successfully in Switzerland in more than 3,000 corporations. And other European countries are also familiar with this difference. It is important in particular in measuring assets: Administrative assets are valued using *„Historical cost*", Non Administrative Assets using *„Market value*". Furthermore the difference is important also for investors. It can be seen which assets cannot be realized to meet obligations. Administrative Assets – in contrast to Non Administrative Assets – can as a rule not be pledged. Here again a second topic concerns the capitalizability of Capital grants (see also Heading 3.1.1).

3.6 Specific Matter for Comment 6

3.6.1 (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.

Yes.

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

No, because the wording is contingent liabilities. If however the question were supplemented with „past event", the answer would be Yes.

(iii) Performance obligations.

Yes.

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

No. The considerations in connection with rents seem to go far too far.

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

No.

3.7 Specific Matter for Comment 7

3.7.1 (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?

No, no "*essential characteristic*". Example: Provision for coins in circulation in Federation.

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

Yes.

3.7.3 (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?

Approach c). Whereby there is wide scope for interpretation. The approach would therefore have to be specifically defined.

3.8 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?

A "past event" is needed, in order that there is as much clarity as possible in this question.

3.9 Specific Matter for Comment 9

3.9.1 (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?

Yes. "*Services rendered or goods received*" and "*Program conditions met by recipients*" in the illustration on Page 39 of the *Consultation Paper* are understood as "*past events*". In connection with the assets it seems important that both expressions *„past event*" and *„intermediate event*" are clearly defined. It seems to us that the expressions *„past event*" and *„intermediate event*" are mixed when it comes to liabilities. But we can appreciate the intention of the IPSAS Board and the necessity of maintaining a symmetry with the assets (see Heading 3.4). But this also demonstrates the need for the IPSAS Board to better indicate the difference in the two expressions *„past event*" and *„intermediate event*". That means that the expression *„intermediate event*" should be clearly defined.

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

Yes.

3.9.3 (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?

Yes, regarded as sensible. The *Conceptual Framework* could then provide information as to how various cases are to be treated.

3.10 Specific Matter for Comment 10

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

Yes, here the question is raised in respect of investment grants being carried as liabilities (analogous question for the *assets*).

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

No, no other issues are apparent.

3.11 Specific Matter for Comment 11

3.11.1 (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)?

The "*Revenue and expense-led approach*" is preferable. In the public sector the Statement of Financial Performance (income statement) is clearly more important than the Statement of Financial Position (balance sheet), in particular also in connection with the Financial Bill (Budget represents an expenditure approval). Therefore a divergence here from IFRS seems absolutely justified. The balance sheet is an important instrument for the investors. For all other classes of „*users*" of GPFSs (such as governments, parliaments, auditing bodies and taxpayers) the information provided by the income statement is more important (budget approval and observance of the budget entitlements, information about the costs of services provided for the people, information about the coverage of the costs by revenue, in particular taxes, etc.). For most political decisions in the public sector the balance sheet plays a less important role, rather it is a question of weighing up the costs and benefits. Nonetheless the role of the balance sheet must not be neglected, because it is also important for assessing revenue and expenditure and indebtedness.

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

Recording must comply with the principles of Accrual Accounting and „Matching costs and revenues". We suggest taking up the „Matching costs and revenues" principles in the Accounting Principles of IPSAS. It is also very important for the correct recording of the financial flows to consider the purpose of the assets: if the purpose of an asset is to re-sell it, it is to be recognized at market value. On the other hand assets serving the fulfilment of public sector duties are to

be recognized in the balance sheet at historical cost (see also Heading 3.5.2 Difference between Finance Assets and Administrative Assets).

3.12 Specific Matter for Comment 12

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

Yes, e.g. allocations to reserves or for the use of funds in equity.

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

No. Exceptions should however be possible in cases of potential valuation corrections, such as on shares (unrealized). Therefore the *Conceptual Framework* should allow certain asset movements to be recorded directly in equity and not over the income statement. The specific exceptions would then have to be governed in the relevant IPSAS.

3.13 Specific Matter for Comment 13

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

No, no additional characteristics are apparent.

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

No, no additional issues are apparent.

3.14 Specific Matter for Comment 14

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

No. The Accrual Accounting principle is to be considered. But not in the sense of the expression „deferral" per US GASB (*Governmental Accounting Standards Board*).

3.14.2 (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.

Because the answer to (a) is No, no answer is possible here.

3.14.3 (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?

Because the answer to (a) is No, no answer is possible here.

3.15 Specific Matter for Comment 15

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

A distinction must be made here between two types of reporting entity: for territorial jurisdictions (Federation, cantons, communities) the answer is *„residual interest*". For independent entities the answer is *„ownership interest*".

3.15.2 (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?

Yes.

3.15.3 (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?

Yes. Special cases still have to be governed. For example special financing and funds in equity or valuation corrections on shares. By special financing is meant the complete or partial earmarking of revenues for specific tasks. As a rule income or general government revenues without a causal connection with their usage are earmarked by law in funds in equity.

3.16 Specific Matter for Comment 16

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

Yes. They should be disclosed in the movement on equity.

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

For example, the caption that is concerned within equity and clear criteria as to when recording within equity is permitted and when not.

3.17 Specific Matter for Comment 17

3.17.1 (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?

No criterion is preferred.

3.17.2 (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?

Because under (a) no criterion is preferred, an answer is not possible here.

3.18 Specific Matter for Comment 18

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

Yes, in principle the same criteria should be applied. Exceptions are to be provided in the specific IPSAS.

3.19 Specific Matter for Comment 19

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

It should be an „*integral part*", because the advantages for the user predominate.

Lausanne, June 7, 2011

Appendix 1

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?

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

(i) Economic benefits and service potential; or

(ii) Economic benefits?

(a) All of these should be recognised.

(b) We consider that conceptually, assets must be capable of providing economic benefits. However, in practice in the context of public sector financial reporting, assets are obtained/held for two clearly defined purposes, namely to generate future economic benefits or to provide services to the public. In the context of public sector financial reporting it is therefore desirable to differentiate why assets are held (e.g. to inform valuation decisions).

Therefore we support option (i).

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) We consider that each of these bases is in general less clearly defined in the public sector than in the private sector because of the functions, diverse nature, structure and legal powers of public sector entities. For example risks and rewards are often not as well aligned in the public sector as they tend to be in the private sector. We have encountered various situations where one public sector entity bears the risk relating to an asset, while another entity (or

entities) reaps much of the benefit. This can result in severe difficulties in deciding on appropriate accounting treatment.

Overall, although none of the proposed bases are without flaws, we consider that 'control' best links an asset with a specific entity. However further consideration will need to be given when developing this section of the framework as to whether 'control' refers to (inter alia):

- the ability to exercise control or actual exercise of control; and
- control over the asset or the service delivery capacity of the asset.

(This issue is touched upon albeit in the context of a specific scenario, in our response to Specific Matter for Comment 4).

(b) We consider that an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access are essential characteristics of an asset.

(c) Not that we are aware of.

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?

We consider that there must have been an event, or a series of events, that resulted in the creation of an asset. However in practice the difficulty is often whether there is an 'identifiable' past event.

We consider that the need for an identifiable past event should not limit the recognition of an asset. Instead, the more essential consideration is whether there exists a present resource available to the entity to meet its future obligations or contribute to the entity's service potential.

Specific Matter for Comment 4

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 consider that the power to tax and levy fees is in itself an asset. However we do not consider that a theoretical power to tax can in practice be measured in such a way as to provide a faithful representation of the asset.

We agree that the power to tax and levy fees should be considered as assets only when:

- *those powers are exercised; and*
- *the tax or levy due can be measured in such a way as to provide a faithful representation of the asset.*

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) No

(b) 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?

(a) We consider that elements (i), (ii) and (iii) should be included in the definition of a liability.

We do not support the inclusion of (iv).

(b) No.

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

(b) Yes. However it must be recognised that certain public sector entities are able to change the law such that they could negate a liability. The framework should therefore consider what constitutes 'realistic' in the context of law making entities.

(c) We consider that approach (c) provides the best approach for the reasons outlined in paragraph 3.35.

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?

We consider that there must have been an event, or a series of events, that resulted in the creation of a liability. However in practice the difficulty is often whether there is an 'identifiable' past event.

We consider that the need for an identifiable past event should not limit the recognition of a liability. Instead, the more essential consideration is whether there exists a present obligation.

Specific Matter for Comment 9

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

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

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

(a) Consistent with our response to Specific Matter for Comment 7, we consider that a liability should be recognised when there is no realistic alternative to avoid the obligation. In the public sector such a scenario can arise from contractual, constructive political or moral obligations. The factors that would trigger a liability are likely to vary between jurisdictions, depending on legal systems, specific legislation and political factors. We consider that in substance an enforceable claim arises out of entity having no reasonable alternative to avoid the obligation.

(b) Yes. As noted above enforceability can arise from contractual, constructive political or moral obligations.

(c) As is discussed in paragraphs 3.59 - 3.60 sovereign powers may allow a government to avoid its liabilities for example, by changing legislation. However we consider that it is necessary to assume that at the balance sheet date the government will meet all its liabilities that it is required to recognise under the relevant financial reporting framework and legislation in place at that time.

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) No.

(b) *No*.

Specific Matter for Comment 11

(a) Should revenues and expenses be determined by identifying which inflows 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) We consider that revenues and expenses should be determined by identifying changes in net assets during the period.

(b) *We consider that the assets and liabilities-led approach provides robust start and finish points, which in turn results in more robust measurement of financial performance. A 'revenue and expense' approach is inherently more susceptible to subjective judgements.*

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) We consider that transactions with residual/equity interests should be treated as revenues and expenses where these result from the operations of the entity.

However at a standards level, revenues from residual/equity interests should be analysed into revenue received:

- *for operational activities; and*
- *specifically to support the acquisition of capital assets.*

We consider that this differentiation is required to ensure comparability between entities and periods.

Increasingly, governments are requiring agencies that are not defined by IPSAS as Government Business Enterprises to enter into contracts/service level agreements with their 'parent' department. In many cases they also stipulate that their expenses do not exceed the revenue provided to them. In some instances (e.g. in the UK in certain instances) the latter is a statutory requirement. Where such agencies incur deficits, the government may need to make a capital injection to remove the deficit. It is also conceivable that governments may allow external minority participation in government agencies by the private sector who may also provide additional capital.

It is also possible that agencies may make payments of 'dividends' or other distribution of accumulated surpluses to residual/equity interests.

Such revenues/expenses:

- *are not related to the operational activities of agencies: and*
- *need to be separately identifiable to facilitate comparability and to allow users of the accounts to understand the agencies' financial performance.*

We therefore consider that such transactions with residual/equity interests should be excluded from revenues and expenses.

(b) Yes, see comments above regarding capital transactions.

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) 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?

(a) No. We recognise that intergenerational/interperiod equity and demonstrating its achievement is considered by many to be an important principle of public sector accountability. In some jurisdictions (e.g. the USA) intergenerational/interperiod equity is considered to be fundamental to public administration.

However we consider that intergenerational/interperiod equity is a policy, rather than a fundamental concept that underlies the preparation and presentation of financial statements. If a jurisdiction wishes to demonstrate intergenerational/inter period equity then this can be done through reports that accompany the accounts.

In our response to Specific Matters for Comment 11, we stated our view that the measurement of inflows and outflows should be based on movement in net assets, derived from an asset and liability-led approach. We consider that this effectively excludes the possibility of deferring income or expenditure; the balances in respect of these deferred items do not consist of amounts due from or to external parties as at the balance sheet date.

(b) Not applicable in light of our response to (a) above.

(c) Not applicable in light of our response to (a) above.

Specific Matter for Comment 15

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

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

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

(a) We consider that the status of the net assets/net liabilities balance could vary between and within jurisdiction and entities, depending on the:

- *nature and sources of funding of the entity;*
- *the function of the entity; and*
- *the legal and constitutional status of the entity*

We consider that in general net assets/net liabilities should be treated as a 'residual interest'.

However where an entity is financially accountable to another entity (even where the 'parent' cannot direct or control the operational policies of the 'subsidiary'), net assets/net liabilities effectively constitute an 'ownership interest'. A relevant scenario is outlined in paragraph 5.19; however we consider that in the scenario outlined, the government's interest represents an ownership interest rather than a residual interest. An ownership interest would also occur if a jurisdiction allows private investment in a government owned entity.

(b) Yes.

(c) Not that we are aware of.

Specific Matter for Comment 16

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

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

(a) Only where:

- *An 'ownership interest' exists as outlined in our response to Specific Matter for Comment (15a);*
- *The transactions are not related to operating activities (ie they are restricted to capital injections or payment to the 'ownership interest' by means of 'dividends' or other distribution of accumulated surpluses.*

(b) See response to Specific Matter for Comment (16a).

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) We support the 'measurement attribute' approach.

(b) We agree that a uniform threshold should be adopted for the recognition of both assets and liabilities; we consider that 'probable' would be a suitable threshold.

Specific Matter for Comment 18

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

Yes.

Specific Matter for Comment 19

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

We consider that recognition is a distinct stage in the accounting process that takes place after consideration of whether an item meets the definition of an element.

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Paris, 9th June 2011

Mr Andreas Bergmann
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Re: Conceptual Framework : Exposure Draft and Consultation Papers

Dear Andreas,

You will find, here joined, the comments made by the French "Conseil de normalisation des comptes publics" (CNOCP) on the questions raised by the IPSAS Board regarding the Conceptual Framework.

These comments are inspired by the consideration of the specificities of the public sector, namely the non-for-profit activity, the constitutional decision making process as opposed to the rule of contract in the private sector, the lack of connectivity between resources and expenses, the importance of transfers, the fact that public authorities are not « available-for-sale », etc. This does not preclude the need to adopt whenever possible, the same standards as the private sector, which is required in France by law.

I have to comment on an issue which made our debates complex and triggered some dissent by one of our members, as you will see in their own response to your consultation.

IPSAS Board asked whether we should prioritise from a conceptual point of view, a « balance sheet approach » or a « revenue and expense-led approach » which is based on the flow of expenses and resources.

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I have to say that we are not comfortable with the question, as it is clear to us that both approaches are relevant and complementary : the ongoing effort of modernisation of the French system for financial accounts, at least for the past fifteen years, has precisely aimed to the development of accrual accounting, together with the building of a more comprehensive balance sheet (having in mind the difficulty which derives from our inability to value one of the most significant intangible assets, the right to raise taxes).

It remains clear, for most of us, that, from an operational point of view, the accounting of flows is of utmost importance and has to be consistent with budget management. Nonetheless, we devote lots of efforts to identify, measure and account for, assets and liabilities of public entities. Contrary to the purpose of the balance sheet approach in the private sector, whose main user is supposed to be the investor, this effort does not aim to « value » public entities with a view to buy or sell… It has both a management purpose (better management of real estate) and an objective to contribute to the sustainability analysis (debt management).

I wonder, therefore, whether the main question is not, rather than opposing the « revenue and expense-led approach » to the « « balance sheet approach », the way items are measured and valued. If this is the case, you can see in our responses that we take a clear view : our accounts register facts, based on triggering events, and prioritise the historical cost measurement with some significant exceptions where other methods are used (market value, replacement value…).

Indeed I have the feeling that the supposed opposition of flow versus balance sheet is an unintended consequence of the debate on the relationship between IPSAS an IFRS. As you know, we certainly take the view that neither the IFRS Conceptual Framework nor a number of their provisions are fit for the public sector.

I hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Michel Prada

Cc : Ms Stephenie Fox, Technical Director, IPSAS Board

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Paris, 9th June 2011

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Re: Consultation Paper
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 "Conseil de normalisation des comptes publics" (CNOCP)[1] to express its views on the above-mentioned Consultation Paper[2].

The CNOCP supports the publication of the three consultation papers on the Conceptual Framework for public sector entities by the IPSAS Board. This consultation on a fundamental subject represents a significant step towards the development of an accounting framework for public sector entities.

The CNOCP welcomes the publication of the Consultation Paper on the definition of the elements to be recognized in and the accounting approach to be adopted for the financial statements of public sector entities, subjects which had not so far been specifically addressed. The CNOCP particularly welcomes the presentation of the two possible approaches described in the paper, one based on economic inflows and outflows ("revenue and expense-led approach"), and the other on a balance sheet approach.

1 See Appendix 1
2 See the French original version in Appendix 3

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With respect to the latter, the CNOCP considers that for the public sector, the revenue and expense-led approach is preferable for preparing financial statements. Indeed, this approach is a direct consequence of the definitions set out in the exposure draft of the primary users of financial statements, namely service recipients and resource providers. This revenue and expense-led approach appears the most suitable for linking up the financial statements to the budgetary accounts. It also better reflects the specific characteristics of the public sector, in particular the non-commercial character of transactions mainly funded by compulsory levies, and the lack of a systematic relationship between income and expenditure. Lastly, it should be noted that the balance sheet approach raises certain application difficulties when the assets and liabilities of public sector entities do not have the same definition as for private sector entities. In addition certain assets and liabilities raise measurement problems for which no solution has been found to date. The CNOCP wishes in this respect to stress that the priority given to a revenue and expense-led approach must also enable appropriate recognition of assets and liabilities in the balance sheet.

This revenue and expense-led approach leads to completing the information presented in the balance sheet and income statement with additional disclosures either in the notes or in a separate report according to the nature of the information.

Lastly, we should not overlook the fact that the revenue and expense-led approach also has consequences for measurement. This subject is dealt with in the response to the third Consultation Paper.

I hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Michel Prada

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APPENDIX 1

DETAILED COMMENTS

The CNOCP wishes again to stress that it welcomes the efforts made by the IPSAS Board in developing a Conceptual Framework for public sector entities; however, the CNOCP has the impression that the structure of the paper, which starts by defining assets and liabilities, seems implicitly to give preference to a balance sheet approach, whereas the CNOCP is clearly in favour of a revenue and expense-led approach.

Having made this preliminary point, you will find below the detailed comments on the Consultation Paper on the elements and the recognition principles in the financial statements.

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 CNOCP considers that the definition of an asset should cover the following types of benefits: **service potential and net cash inflows**.

On the other hand, “unconditional rights to receive resources” should not be included in the definition criteria for an asset, because of the difficulty of defining this concept and the consequent measurement difficulties.

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(b) The CNOCP is in favour of using the terms **"economic benefits"** and **"service potential"** for defining an asset.

These are the terms currently used in the conceptual framework for French Central Government accounting (Central Government Accounting Standards Manual). According to these standards, an asset is an element with a positive economic value for Central Government, that is a resource controlled by it and from which it expects to derive future economic benefits. For Central Government, the future economic benefits consist either of cash flows generated for the benefit of Central Government by use of the asset, or of the availability of a service potential arising from the use of the asset which benefits Central Government or third parties, in accordance with its mission or its purpose.

The advantage of combining economic resources and service potential is that together they cover all resources, whether the latter generate net cash inflows or procure non-monetary economic benefits.

The CNOCP agrees with the items which contribute to the proposed definition of service potential; these items are the capacity to provide goods or services or the provision of means for satisfying the wants or needs of citizens, or to carry out public service missions.

The CNOCP considers that, in this context, this notion of service potential, when combined with that of economic benefits covers a complete area of public sector activities.

This approach is moreover consistent with that adopted in certain IPSAS standards[3], and appears at this stage to be justified.

[3] IPSAS 17 Property, Plant and Equipment: "The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if: it is probable that the future economic benefits or the service potential associated with the asset will flow to the entity and the fair value or the cost of the asset can be measured reliably".

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- **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 CNOCP is in favour of a **control approach** for associating an asset with a specific entity, where control is defined as the power to manage and regulate. Control generally takes a specific legal form (legal property rights or right of use) and is characterised by:

- power over the conditions of use of the asset ;
- power over the service potential and/or the future economic benefits derived from this use.

The CNOCP considers that the notion of access to risks and rewards is a criterion for determining the existence of control. As stipulated in the Central Government Accounting Standards Manual (RNCE), control over an asset is defined as power over future economic benefits derived from the use of that asset; the fact that the Central Government bears the risks and expenses associated with holding an asset creates a presumption of the existence of control.

(b) The CNOCP considers that an entity's enforceable claim to benefits or its ability to deny, restrict, or otherwise regulate others' access is not sufficient on its own to link a resource to an entity.

(c) The CNOCP has not identified other elements necessary for linking a resource to an entity.

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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?

The CNOCP considers that **an asset has a latent capacity to generate resources,** but **a past event is necessary** to reveal the existence of the asset at the reporting date.

Hence, Central Government holds the exploitation rights over resources within its public domain. This exploitation may be carried out by the Central Government itself or by a third party as part of a delegation of a public service. The CNOCP considers that the intangible asset corresponding to the exploitation rights of the whole of the public domain should not be recognized in the balance sheet because it is too difficult to measure. Effectively, it is not generally possible to determine in advance and with sufficient reliability the future economic benefits arising from the exploitation of the public domain. On the other hand, the occurrence of an event such as the signing of a contract, which materialises these economic benefits, makes it possible to recognize in the accounts the asset revealed by the transaction.

The recognition of the frequency spectrum in the accounts of Central Government is an illustration of the above principles. According to the relevant accounting principles "the underlying asset should be recognized and not the temporary right to private use of the wavelength. Each transaction reveals the economic value of the specific power to authorise use of an identified item in the public domain. The frequency spectrum already existed but was only revealed and consequently recognized in the Central Government's balance sheet when licences were granted to operators".

This logic may be extended to other items in the public domain, when a transaction reveals the economic value of the specific power of the Central Government to authorise use of identified items in its public domain.

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- **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 CNOCP considers that **the sovereign powers of Central Government represent a general power. However, this sovereignty is not an asset and cannot be measured.**

In general, Central Government fundraising is based on legislation and regulation. The application of these requirements enables funds to be generated and measured, which in turn makes it possible to recognize them in the accounts.

With respect to the fundamental power of government to raise taxation, it results from the adoption each year of the Budget Act.

A "triggering event" is therefore necessary to enable the identification and recognition of this asset.

- **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 CNOCP considers there are no other additional characteristics essential to the definition of an asset.

(b) The CNOCP has no other issues and particularly public sector considerations to put forward, that need to be considered in determining the concept of assets.

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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 toinsure 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 CNOCP considers that **the definition of a liability should cover obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.**

A liability consists of an obligation towards a third party, existing at the reporting date, which will probably or certainly, at the date when the accounts are finalised, give rise to an outflow of resources for the benefit of the third party and from whom no consideration is expected in return after the reporting date.

The CNOCP considers moreover that the identification of a liability is related to the existence of an obligation arising from a past triggering event, which may for example be materialised by an official award.

The fact that a past event is deemed necessary usually leads to excluding constructive obligations.

The CNOCP considers that there is a fundamental conceptual difference between obligations arising through legislation and regulation or contractual provisions and those that do not. When a legislative or regulatory provision applies, the obligation giving rise to an outflow of resources must be recognized. In the second case, in the situation where the Central Government has clearly

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shown its intention, but without translating this intention into legal or regulatory texts so that it does not have an irrevocable character, disclosure of the decision in the notes is more appropriate.

Applying the same logic, unconditional obligations, including stand-ready obligations, cannot be considered as liabilities.

The CNOCP does not wish to include performance obligation as liabilities because of the difficulties arising when trying to define precisely this concept.

The obligation to provide access to or forego future resources does not as such meet the requirements of a liability.

(b) The CNCP considers that **a settlement date, which helps to better identify a liability, is nevertheless not an essential characteristic**.

- **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) **The CNOCP considers that the ability to identify a specific party outside the reporting entity, in respect of which this entity has an obligation, is not an essential characteristic of the definition of a liability.** This ability to identify a third party should rather be considered as an element which helps to identify a liability.

(b) On the other hand, **the inability to avoid the obligation is considered to be an essential characteristic of a liability**. It is a direct consequence of the proposed definition, according to which a liability is characterised by the existence of a

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formal obligation (arising under law, regulation or contract), but also of the fact that a liability gives rise ultimately to an outflow of resources.

(c) The approach set out in paragraph 3.28 (a) is the one adopted by the CNOCP which considers that it is no longer possible to avoid an obligation when the latter becomes enforceable, either through legislation, regulation or contractual provisions where the conditions of enforcement are defined. **The CNOCP considers that the recognition of a liability is conditioned not only by the existence of a clear intention of Central Government but also by the translation of this intention into legal, regulatory or contractual requirements.**

Therefore, it does not seem possible to consider that Central Government has an irrevocable obligation to honour constructive obligations (obligations resulting from custom or case law) or legitimate obligations (obligations resulting from the legitimate expectations of citizens). The CNOCP considers these elements to be of a subjective nature and insufficient to demonstrate that the Central Government cannot avoid its obligations.

- **Specific matter for comment 8**

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

The CNOCP considers it inappropriate to say that a liability is a permanent obligation. It states that there must be an enforceable arrangement (by law, contract…) **and the existence of a triggering event** (which materialises the firm commitments existing at the 31/12/xx) to enable the recognition of a liability.

Generally, it is the role of Central Government to provide a certain number of public services (for example education, development and implementation of policy for health, justice and security…); at this stage these general obligations that result from this role are not considered to be liabilities.

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- **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) As already indicated above, the CNOCP considers that the role of Central Government is to fulfil a certain number of public service missions. At this stage, the general obligations arising as a result of these missions are not considered to be liabilities.

(b) The CNOCP stipulates that the obligation to perform, as part of an enforceable arrangement, is an essential characteristic of a liability.

(c) The CNOCP confirms that the definition of a liability should include a reference to a legal or regulatory position at the reporting date.

These missions represent obligations which Central Government cannot avoid. These obligations are necessary conditions for identifying a liability but insufficient to enable its recognition.

According to the same logic as for assets, **the existence of an enforceable arrangement (law, contract…) and the existence of a triggering event - which materialises the firm commitments at the reporting date - are necessary conditions for the recognition of a liability.**

- **Specific matter for comment 10**

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

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(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 CNOCP considers that there are no other essential characteristics for the development of a liability definition.

(b) The CNOCP wishes to draw attention to the fact that the public sector and Central Government in particular, has liabilities of a specific nature for which there is no equivalent in the competitive sector. Intervention liabilities in particular, are important for Central Government and related to its missions. In order to capture these liabilities, it is necessary to link the qualification of the obligation to the triggering event for the expense related to the obligation (liability or provision).

3. REVENUE AND EXPENSES

- **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) **The CNOCP considers that revenues and expenses should be determined by identifying which inflows and outflows are "applicable to" the current period.** It should be remembered that revenue and expenses are not matched in the public sector. **The CNOCP confirms that it is in favour of a revenue and expense-led approach.**

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According to this approach, the economic inflows and outflows applicable to the period are recognized in that period, and the relevant adjustments to revenue and expenditure and assets and liabilities are recognized as accruals.

(b) The CNOCP wishes to put forward the following arguments in favour of the approach chosen: it considers that the choice of this approach is a result of the definition of primary users, namely service recipients and resource providers. It is reasonable to think that clear understandable information which can be readily compared to budgetary data is the most appropriate to meet users' needs.

Moreover, the revenue and expense-led approach meets the objective of financial statements which in the public sector, characterised by the lack of matching between revenue and expense, consists of providing information on funds raised during the period (public funds and in particular compulsory levies) and on the financial requirements mobilised or to be mobilised in order to fund the transactions of the period.

The CNOCP wishes also to stress that whilst meeting the specific requirements of the public sector, the priority given to a revenue and expense-led approach should also enable the appropriate recognition of the elements of net assets in the balance sheet.

- **Specific matters for comment 12**

(a) Should transaction 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) In our opinion this question requires clarification because it may be interpreted in two different ways:

- the first is a reference to the possibility of recognizing certain items directly through net assets/net liabilities, without going through the income statement. This is the case for asset revaluations recognized directly through equity without going through the income statement.

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The adoption of the revenue and expense-led approach limits revaluations of this kind, without banning them.

- the second refers to the existence of minority interests in public entities. However, the CNOCP considers that this is not a significant issue in France as only a few large public sector companies have minority interests.

(b) The CNOCP considers that the revenue and expense-led approach should lead to limiting the definition of revenue and expense to activities associated with operations. The CNOCP considers these operations to be of a current nature.

- **Specific matters for comment 13**

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

(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 CNOCP believes there are no other characteristics which are essential for the development of a definition of revenues and expenses.

(b) However, the CNOCP believes there are specific public sector characteristics to be taken into account when defining revenue and expenses. This includes the importance of determining the triggering event for the recognition of intervention expenses or taxation revenue.

- **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;

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(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 CNOCP considers that deferrals should be identified in the financial statements. Indeed, the choice of the revenue and expense-led approach leads to the recognition of deferrals and **consequently deferral accounts are required**.

(b) The CNCP believes that deferrals, as accrual accounts, that are neither assets nor liabilities nor differences in net assets/net liabilities, **should be defined as separate elements.**

Having established this principle, it is however possible to consider that where the deferred element is directly related to a principal element (for example, accrued interest not yet due), it may follow the same accounting treatment as the asset or liability to which it is related.

- **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 IPSAS needs to consider in determining the concept of net asset/net liabilities?

(a) In the public sector, the notion of equity has a different meaning than in the private sector where private entities have shareholders. In general there are two approaches: one which aggregates the positive elements of equity, the other which is a difference between total assets and liabilities. Based on the principle that public entities are generally organisations without capital or equity, it is the second approach that applies.

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As net assets/net liabilities are determined by difference between total assets and total liabilities, it is a logical consequence of this approach that **net assets should be considered as a residual amount.**

(b) For Central Government and public entities, the shareholder concept, corresponding to an interest of the shareholders in the capital is not relevant. This is why the CNOCP believes that the concept of shareholders' interests should not be included in the element definition.

In the very specific case of state-controlled enterprises with minority interests, it could be of interest to identify the different types of capital contribution in net assets/net liabilities. The CNOCP would however stress that these situations are in fact marginal.

(c) The CNOCP has not identified any other issues for consideration in defining the concepts of net assets and 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?

(a) The CNOCP believes that the objectives pursued in this point require clarification, in particular with reference to the preceding questions (12 and 15).

(b) Having previously defined net assets/net liabilities in public entities as a residual amount, and considering that in the revenue and expense-led approach transactions with residual interests are limited, the transactions with residual interests do not require definition as separate elements.

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- **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) **The CNOCP is not in favour of a threshold approach**. It refers to the recognition principle for elements based on a triggering event. The issue of measurement is dealt with in the second phase. The notion of threshold – which would correspond to an amount – has not been adopted.

(b) Not applicable, as the CNOCP does not agree with the notion of threshold.

- **Specific matter for comment 18**

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

The CNOCP believes that the same criteria should be used for recognition and derecognition. This issue would nevertheless deserve further investigation.

- **Specific matter for comment 19**

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

Given that we consider the triggering event is the fundamental criterion for recognizing an asset or liability, the recognition criteria form necessarily a part of this definition.

APPENDIX 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Establishment of the "Conseil de normalisation des comptes publics" as Public Sector Accounting Standards Council and jurisdiction.

The Public Sector Accounting Standards Council was established by a Budget Amendment on the 30th December 2008 and supersedes the Public Accounting Standards Committee.

This new Council is in charge of setting the accounting standards of all entities with a non-market activity and primarily funded by public funding, including contributions.

The Central Government and the agencies working for the Central government, Local authorities and local public institutions, Social Security and affiliated agencies are all within the jurisdiction of the CNOCP.

Extending the scope of the former Public Accounting Standards Committee which used to only regulate the French Central government accounting standards has empowered Public Finances with the ability to deal with a consistent accounting policy for the whole of French Public Administrations.

2. Organization of the "Conseil de normalisation des comptes publics".

The Council is an advisory body under the authority of the Minister for the Budget which publishes preliminary advice on all the legislative texts concerning accounting issues relevant to any entity within its jurisdiction. It can also put forward new and innovative provisions and participates actively in the regulation of accounting standard on a national and international level. All this information is available to the public.

The Council is managed by a President appointed by the Minister for the Budget and any decisions are taken consensually by a College made up of eighteen members of whom nine are statutory and nine are external experts. The President and the College are supported by three standing commissions and a steering committee. The three standing commissions are as follows: "the Central Government and the agencies working for the Central government", "Local authorities and local public institutions", "Social Security and affiliated agencies"

The Council has at its disposal a permanent team of specialists who report to the President and who are managed by a General Secretary.

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APPENDIX 3

Here is the French original version of our response to the Conceptual Framework Consultation Paper on Elements and Recognition in Financial Statements dedicated to the French speaking people

Le Conseil de normalisation des comptes publics approuve la publication par l'IPSAS Board des trois documents de consultation relatifs au cadre conceptuel des entités du secteur public. Cette consultation constitue un réel progrès s'agissant d'un sujet fondamental pour la construction d'un référentiel comptable des entités du secteur public.

Le Conseil se félicite de la publication du document de consultation sur la définition des éléments devant faire l'objet d'une comptabilisation et de l'approche comptable à retenir pour élaborer les états financiers du secteur public, réflexions qui n'avaient pas à ce jour été clairement abordées. Le Conseil apprécie particulièrement que soient présentées les deux approches possibles, l'une fondée sur les flux économiques, et l'autre correspondant à une approche par le bilan, en précisant les caractéristiques de chacune d'entre elles.

A cet égard, le Conseil de normalisation des comptes publics considère que, dans le contexte du secteur public, l'approche à privilégier pour l'élaboration des états financiers doit être basée sur les flux économiques. En effet, cette approche découle en premier lieu des définitions retenues dans l'exposé sondage pour les utilisateurs premiers des états financiers que sont les bénéficiaires de services et les contributeurs financiers. Cette approche par les flux économiques semble la plus adaptée pour assurer l'articulation des états financiers avec la comptabilité budgétaire. Elle permet également de rendre compte des spécificités du secteur public, en particulier la caractéristique non marchande des opérations financées majoritairement par des prélèvements obligatoires, et l'absence de relation systématique entre les produits et les charges. Enfin, il convient de remarquer que l'approche par le bilan soulève des difficultés de mise en œuvre dès lors que les actifs et les passifs des entités du secteur public ne revêtent pas la même acception que dans le secteur privé. De plus certains actifs et passifs soulèvent des questions d'évaluation non résolues à ce jour. Le

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Conseil tient à cet égard à rappeler que la primauté donnée à l'approche par les flux économiques doit également permettre de prendre en compte les éléments liés à la comptabilité patrimoniale.

Cette approche par les flux économiques conduit à compléter les éléments comptabilisés au bilan et au compte de résultat par un ensemble d'informations complémentaires qui pourront soit être portées dans l'annexe aux comptes, soit dans des documents séparés, en fonction de la nature des informations à communiquer.

Enfin, il convient de rappeler que cette approche par les flux économiques n'est également pas exempte de conséquences sur les choix à faire en matière de méthodes d'évaluation. Ce sujet est développé dans la réponse au troisième document de consultation.

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ANNEXE 1

COMMENTAIRES SPECIFIQUES

Le Conseil rappelle sa satisfaction suite à la démarche engagée par l'IPSAS Board consistant à élaborer un cadre conceptuel pour les entités du secteur public ; toutefois, le Conseil a le sentiment que l'organisation du document de consultation, qui prévoit de définir en premier lieu les actifs et les passifs met implicitement en avant une approche par le bilan, alors que le Conseil se prononce clairement en faveur de l'approche par les flux économiques.

Cette remarque préalable étant faite, vous trouverez ci-joints les commentaires détaillés au document de consultation sur les éléments et les méthodes de comptabilisation dans les états financiers.

1. ACTIFS

• 1er point spécifique à commenter

(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 dans la définition d'un actif :

(i) Avantages économiques et potentiel de service

(ii) Avantages économiques

(a) Le Conseil considère que la définition d'un actif doit couvrir les types d'avantages suivants : **potentiel de service et flux nets de trésorerie**.

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En revanche, les « droits inconditionnels à recevoir des ressources » ne doivent pas figurer comme un critère de la définition d'un actif, en raison de la difficulté à appréhender cette notion et à en tirer les conséquences en matière d'évaluation.

(b) Pour définir un actif, le Conseil souhaite utiliser les termes **« Avantages économiques » et « Potentiel de service ».**

Ces termes correspondent à ceux utilisés actuellement dans le cadre conceptuel du référentiel comptable de l'Etat français (Recueil des normes comptables de l'Etat). Dans ce référentiel, il est en effet précisé qu'un actif est un élément du patrimoine ayant une valeur économique positive pour l'Etat, c'est-à-dire une ressource contrôlée dont il attend des avantages économiques futurs. Pour l'Etat, les avantages économiques futurs sont représentés soit par des flux de trésorerie issus de l'utilisation de l'actif et bénéficiant à l'Etat, soit par la disposition d'un potentiel de service attendu de l'utilisation de l'actif et profitant à l'Etat ou à des tiers, conformément à sa mission ou à son objet.

Le fait d'associer avantages économiques et potentiel de service présente l'intérêt de couvrir l'ensemble des ressources, qu'elles soient génératrices de flux positifs de trésorerie ou d'avantages économiques non monétaires.

Le Conseil est d'accord avec les éléments mentionnés dans le document qui tentent de définir la notion de potentiel de service ; ces éléments sont la capacité à fournir des biens et services ou la capacité à disposer de moyens pour satisfaire les besoins ou les souhaits des citoyens, ou exécuter des missions de service public.

Le Conseil considère que, dans ce contexte, cette notion de potentiel de service permet de rendre compte de toute une partie des activités du secteur public dès lors qu'elle est associée à celle d'avantages économiques.

Cette approche correspond d'ailleurs à celle retenue actuellement dans certaines normes[4] IPSAS, et semble à ce stade justifiée.

[4] IPSAS 17 Immobilisations Corporelles : « Le coût d'une immobilisation corporelle doit être comptabilisé en tant qu'actif si, et seulement si : il est probable que les avantages économiques futurs ou le potentiel de service associés à l'actif iront à l'entité et la juste valeur ou le coût de cet actif peut être évalué de façon fiable ».

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• 2nd point spécifique à commenter

(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 l'actif et l'entité ?

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

(a) Pour associer un actif avec une entité spécifique, le Conseil est en faveur d'une **approche par le contrôle**, qui se définit comme le pouvoir de gestion ou de régulation. Le contrôle qui est généralement organisé sous une forme juridique déterminée (droit de propriété ou droit d'usage) 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 Conseil considère que la notion de maîtrise des risques et des avantages est un des moyens qui permet de caractériser le contrôle, même si elle ne s'y substitue pas. En effet, il est indiqué dans le Recueil des normes comptables de l'Etat (RNCE) que le contrôle d'un actif est notamment caractérisé par la maîtrise des avantages économiques futurs dérivés de l'utilisation de cet actif ; le fait que l'Etat supporte les risques et charges afférents à la détention du bien constitue une présomption de l'existence du contrôle.

(b) Le Conseil considère que le droit opposable aux bénéfices d'une entité ou sa capacité à empêcher, restreindre ou réguler l'accès des tiers ne constitue pas, pris isolément, un lien entre l'actif et l'entité.

(c) Le Conseil n'identifie pas d'autres éléments nécessaires, pour établir le lien entre un actif et une entité.

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• 3ème point spécifique à commenter

Est-il suffisant de dire qu'un actif a une capacité latente à générer des ressources à la date de clôture, ou un évènement antérieur doit-il être intervenu ?

Le CNOCP considère qu'**un actif a une capacité latente à générer des ressources,** mais **qu'un évènement passé est nécessaire** pour mettre en évidence l'existence de l'actif à la date de clôture.

En effet, l'Etat dispose de droits d'exploitation des ressources de son domaine public. Cette exploitation peut être réalisée par l'Etat lui-même ou par des tiers dans le cadre d'une délégation de service public. Le Conseil considère que l'actif incorporel qui correspond au droit d'exploitation de l'ensemble du domaine public ne doit pas figurer à l'actif de son bilan dans la mesure où ce droit général est difficilement évaluable. Il n'est en effet généralement pas possible de déterminer a priori et avec une fiabilité suffisante les avantages économiques futurs provenant de l'exploitation du domaine public. En revanche, la réalisation d'un évènement comme la conclusion d'un contrat, qui matérialise ces avantages économiques, rend possible l'enregistrement comptable de l'actif révélé par la transaction.

A cet égard, la comptabilisation du spectre hertzien dans les comptes de l'Etat permet d'illustrer les principes précédents. Les principes retenus pour la comptabilisation prévoient qu'« il convient de comptabiliser l'actif sous jacent et non le droit d'utiliser temporairement l'utilisation privative des ondes hertziennes. Chaque transaction révèle le potentiel économique attribuable au pouvoir particulier d'autoriser l'occupation d'un élément identifié du domaine public. Le spectre hertzien préexistait mais n'a été révélé et par conséquent comptabilisé au bilan de l'Etat qu'à partir du moment où des « licences » sont octroyées aux opérateurs ».

Le raisonnement peut être étendu aux autres éléments du domaine public, selon lequel c'est l'existence d'une transaction qui permet de révéler le potentiel économique attribuable au pouvoir particulier de l'Etat d'autoriser l'utilisation d'un élément identifié de son domaine public.

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• 4ème point spécifique à commenter

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 ?

Le Conseil considère que pour ce qui relève de l'Etat, **le pouvoir régalien représente un pouvoir général. Cependant, cette souveraineté n'est pas représentative d'un actif et n'est pas évaluable.**

De manière générale, la collecte des ressources de l'Etat est fondée sur des dispositifs législatifs ou réglementaires. La mise en application de ces dispositifs permet de générer et d'évaluer ces ressources et rend possible leur comptabilisation.

Pour ce qui concerne le pouvoir fondamental du gouvernement de lever l'impôt, il est conditionné chaque année par le vote de la loi de finances.

Un « fait générateur » est donc nécessaire pour permettre l'identification et la comptabilisation de cet actif.

• 5ème point spécifique à commenter

(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) Le Conseil considère qu'il n'y a pas d'autres caractéristiques qui sont essentielles à la définition d'un actif.

(b) Le Conseil n'avance pas d'autres considérations, en particulier spécifiques au secteur public, qu'il semble nécessaire d'analyser pour définir le concept d'actifs

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2. PASSIFS

• 6ème point spécifique à commenter

(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 inconditionnelles, y compris passifs éventuels (obligation de se tenir prêt) 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 de dénouement est-elle une caractéristique essentielle du passif ?

(a) Le Conseil considère que **la définition d'un passif doit couvrir l'obligation de transférer des avantages, définis comme des flux de trésorerie ou autres actifs, ou de fournir des biens et services dans le futur.**

Un passif est constitué par une obligation à l'égard d'un tiers, existante à la date de clôture, dont il est probable ou certain, à la date d'arrêté des comptes, qu'elle entraînera une sortie de ressources au bénéfice de ce tiers sans contrepartie attendue de celui-ci après la date de clôture.

Le Conseil considère par ailleurs que l'identification d'un passif doit être liée à l'existence d'une obligation issue d'un fait générateur passé, pouvant être par exemple matérialisé par un « acte attributif ».

Le fait de considérer comme nécessaire l'existence d'un fait générateur passé conduit généralement à ne pas retenir les obligations implicites (« constructive obligation ») dans le périmètre des passifs.

Le Conseil considère qu'il existe une différence fondamentale selon que le concept d'obligation s'exerce dans le cadre d'un dispositif législatif, réglementaire ou contractuel déterminé ou non. Lorsqu'il existe un dispositif législatif ou réglementaire mis en application, l'obligation de sortie de ressources doit être comptabilisée. Dans le second cas, qui correspond à la

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situation dans laquelle l'Etat a manifesté une intention claire, sans toutefois avoir traduit cette intention dans des textes ce qui ne lui a pas conféré de caractère irrévocable, la décision devra plutôt se traduire par une information dans les notes annexes.

Selon un raisonnement similaire, les obligations inconditionnelles (y compris les « stand-ready obligation ») ne peuvent être retenues dans la définition des passifs.

Le Conseil ne souhaite pas inclure dans le périmètre des passifs les obligations de performance (« performance obligation ») en raison de la difficulté à définir précisément cette notion.

L'obligation de fournir l'accès ou de renoncer à une ressource future ne permet pas en tant que tel de caractériser un passif.

(b) Le Conseil considère **qu'une date d'extinction du passif, qui contribue à mieux l'identifier, n'en constitue pas pour autant un élément essentiel**.

• 7ème point spécifique à commenter

(a) La possibilité d'identifier un bénéficiaire tiers, externe à l'entité reporting , 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 soutenez-vous pour déterminer si une entité dispose ou non d'une réelle possibilité de se soustraire à son obligation ?

(a) **Le Conseil considère que la capacité à identifier un tiers qui n'appartient pas au périmètre de l'entité qui publie les comptes, envers lequel cette entité est engagée, ne constitue pas un élément essentiel de la définition du passif.** Cette capacité à identifier le tiers doit plutôt être considérée comme un élément qui contribue à une meilleure caractérisation du passif.

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(b) En revanche, **l'incapacité à se soustraire à l'obligation est considérée comme une caractéristique essentielle du passif**. Elle découle directement de la définition retenue, qui caractérise le passif par l'existence d'une obligation formalisée (par un dispositif légal, réglementaire ou un document contractuel), mais également par le fait qu'un passif se traduise à terme par une sortie de ressources.

(c) L'approche exposée dans le paragraphe 3.28 (a) correspond à l'approche retenue par le Conseil qui considère qu'il n'est plus possible de se soustraire à une obligation lorsque celle-ci est devenue exécutoire, c'est-à-dire lorsque cette obligation relève d'un dispositif légal, réglementaire ou contractuel dont les modalités de mise en œuvre sont définies. **Pour enregistrer un passif, le Conseil considère qu'il est nécessaire que non seulement la volonté de l'Etat soit clairement établie mais encore qu'elle soit traduite dans un dispositif légal, réglementaire ou contractuel.**

Dès lors, il n'est semble-t-il pas possible de considérer que l'Etat a une obligation irrévocable de répondre aux obligations implicites (obligations qui découleraient des usages ou de la jurisprudence) ou légitimes (obligations qui résulteraient des attentes considérées comme légitimes de la part des citoyens). Le Conseil considère que ces éléments s'avèrent subjectifs et ne sont pas suffisants pour considérer que l'Etat ne peut se soustraire à ces obligations.

• 8ème point spécifique à commenter

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

Le Conseil considère qu'il n'est pas approprié de dire qu'un passif est une obligation permanente. Il indique que l'existence d'un dispositif de mise en œuvre (par une loi, un contrat…) **et l'existence d'un fait générateur** (qui matérialise des engagements fermes existant au 31/12/n) sont nécessaires pour permettre la comptabilisation du passif.

Généralement, le rôle de l'Etat et des entités publiques consiste à assurer un certain nombre de missions « de service public » (par exemple assurer l'éducation, élaborer et mettre en œuvre des politiques de santé, de justice ou de sécurité…); à ce stade, les obligations générales correspondant à ces missions ne constituent pas des passifs.

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• 9ème point spécifique à commenter

(a) Critère d'identification et de mesure mis à part, les obligations des entités publiques, comme celles associées à ses fonctions et à ses responsabilités de gouvernement, sont-elles des obligations perpétuelles ou deviennent-elles des obligations lorsqu'il existe une obligation de mise en œuvre, ou existe-t-il une étape intermédiaire à considérer ?

(b) L'obligation d'exécution est-elle 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 règlementaire à la date d'arrêté ?

(a) Comme déjà précisé supra, le Conseil considère que le rôle de l'Etat consiste à assurer un certain nombre de missions « de service public ». A ce stade, les obligations générales correspondant à ces missions ne constituent pas des passifs.

(b) Le Conseil indique que l'obligation d'exécution, qui doit s'inscrire dans un dispositif d'application opposable, est une caractéristique essentielle du passif.

(c) Le Conseil confirme que la définition d'un passif doit inclure une référence à une situation légale ou réglementaire à la date de l'arrêté des comptes.

Ces missions sont représentatives d'obligations auxquelles l'Etat ne peut se soustraire. Ces obligations sont des conditions nécessaires à la reconnaissance d'un passif, mais ne sont pas suffisantes pour en permettre la comptabilisation.

Selon le même raisonnement que pour les actifs, **l'existence d'un dispositif de mise en œuvre (une loi, un contrat…) et l'existence d'un fait générateur-qui matérialise les engagements fermes existant à la clôture de l'exercice- sont nécessaires à la comptabilisation du passif.**

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• 10ème point spécifique à commenter

(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) Le Conseil considère qu'il n'y a pas d'autres caractéristiques essentielles à la définition d'un passif.

(b) Le Conseil souhaite que soit mis en avant le fait que le secteur public, en particulier l'Etat, enregistre un ensemble de passifs qui sont par nature spécifiques et ne trouvent pas leur équivalent dans le secteur concurrentiel. Les passifs d'intervention en particulier, sont importants pour l'Etat et sont liés à ses missions. Pour appréhender ces passifs, il est nécessaire de lier la qualification de l'obligation avec le fait générateur de la charge relative à cette obligation (passif ou provision).

3. CHARGES ET PRODUITS

• 11ème point spécifique à commenter

(a) Les produits et les charges doivent-ils être déterminés en identifiant quels flux sont rattachables 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 considérée (dérivé d'une approche basée sur les actifs et les passifs) ?

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

(a) **Le Conseil considère que les produits et les charges doivent être déterminés en identifiant quels flux sont rattachables à la période en cours.** Il rappelle à cet égard le principe de non rattachement des produits et des charges pour le

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secteur public. **Il confirme qu'il est en faveur d'une approche basée sur les flux économiques.**

Selon cette approche, il convient d'enregistrer les flux économiques constatés au cours d'un exercice, en les rattachant à l'exercice et de reconnaître des éléments intermédiaires entre les charges et les produits du compte de résultat et les actifs et les passifs (comptes de régularisation liés au principe de rattachement).

(b) Le Conseil souhaite avancer les éléments suivants à l'appui de l'approche retenue : il considère que le choix de cette approche découle d'abord de la définition retenue pour les utilisateurs premiers que sont les bénéficiaires de services et les contributeurs financiers. Il est légitime de penser qu'une information intelligible, compréhensible et permettant de faire le lien avec les données budgétaires est celle qui répond le mieux aux besoins des utilisateurs.

Par ailleurs, l'approche par les flux économiques permet d'atteindre les objectifs assignés aux états financiers qui consistent, dans le secteur public caractérisé par l'absence de rattachement des charges aux produits, à donner l'information des ressources levées durant l'exercice (ressources publiques et notamment prélèvements obligatoires) et des moyens financiers mobilisés ou à mobiliser pour faire face aux opérations de l'exercice.

Le Conseil souhaite également rappeler que, bien qu'elle réponde spécifiquement aux particularités du secteur public, la primauté donnée à l'approche par les flux économiques doit également permettre de prendre en compte les éléments de la comptabilité patrimoniale.

• 12ème point spécifique à commenter

(a) Les transactions avec intérêt résiduel en capitaux propres 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) Cette question devrait de notre point de vue être précisée car elle peut faire l'objet de deux interprétations différentes :

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- la première renvoie à la possibilité pour certains éléments d'être enregistrés directement en situation nette, sans transiter par le compte de résultat. Il s'agit par exemple des opérations de réévaluation dans lesquelles les variations d'actifs seraient inscrites en capitaux propres, sans transiter par le compte de résultat.

  Le choix de l'approche par les flux économiques limite ce type de réévaluations sans pour autant les interdire.

- la seconde renvoie à l'existence d'intérêts minoritaires dans les entités publiques. Toutefois le Conseil considère que la question des intérêts minoritaires n'est pas en France représentative d'une réalité économique dans le secteur public, seules quelques grandes sociétés publiques ayant des actionnaires minoritaires.

(b) Le Conseil considère que l'approche retenue qui consiste à mettre l'accent sur les flux économiques doit conduire à limiter la définition des produits et des charges aux activités liées à des opérations. Le Conseil considère ces opérations comme étant courantes.

• 13ème point spécifique à commenter

(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) Le Conseil considère qu'il n'y a pas d'autres caractéristiques essentielles à la définition des produits et des charges.

(b) En revanche, le Conseil considère qu'il existe des spécificités du secteur public qu'il est nécessaire de prendre en compte pour définir les produits et les charges. Il s'agit en particulier de l'importance du fait générateur en matière de comptabilisation des charges d'intervention ou du produit de l'impôt.

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• 14ème point spécifique à commenter

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

(b) Si oui, quelle est l'approche la mieux adaptée ?

(i) Les définir comme des éléments séparés

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

(iii) Les inclure 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 et complètes ?

(a) **Le Conseil considère que les éléments différés doivent être identifiés dans les états financiers.** En effet, le choix de la méthode par les flux économiques conduit à prévoir le rattachement à l'exercice concerné des produits comme des charges et **rend pleinement justifiée l'existence de comptes de régularisation**.

(b) **Le Conseil considère que les éléments différés, correspondant à des comptes de régularisation,** ne constituant ni des actifs, ni des passifs, ni des écarts de situation nette, **doivent être définis comme des éléments séparés.**

Ce principe étant posé, on peut toutefois considérer que lorsqu'un élément différé est directement rattachable à un élément principal (exemple, les intérêts courus non échus), il peut suivre le traitement de l'actif ou du passif auquel il est lié.

• 15ème point spécifique à commenter

(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 - comme ceux qui se rapportent aux participations minoritaires dans les entreprises publiques – doit-il faire partie de la définition des « éléments »?

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(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 et de passif net?

(a) Il convient de préciser que dans le secteur public, la notion de capitaux propres doit être appréhendée de manière spécifique par rapport aux entités privées avec actionnariat. De manière générale, deux approches existent : l'une énumérative qui consiste à définir positivement les capitaux propres, l'autre soustractive résultant de la différence entre le total des actifs et des passifs. Partant du principe que les entités publiques sont généralement organisées sous la forme de structures qui n'ont ni capital, ni capitaux propres cette seconde approche prévaut.

La situation nette devant être appréhendée par différence entre le total des actifs et le total des passifs, il découle de cette méthode que l'actif net doit être considéré comme un montant résiduel.

(b) Pour l'Etat et les entités publiques, le concept d'actionnaire, qui correspond à un droit des détenteurs sur le capital ne trouve pas à s'appliquer. C'est pourquoi le Conseil considère que le concept d'intérêts d'actionnaires ne doit pas faire partie de la définition des « éléments ».

Dans le cas très spécifique des entreprises contrôlées par l'Etat mais qui ont aussi des actionnaires minoritaires, il pourrait être intéressant d'identifier les différents types d'apports inclus dans la situation nette. Le Conseil fait toutefois remarquer que ces situations sont en réalité marginales.

(c) Le Conseil n'identifie pas d'autres considérations qu'il semble nécessaire d'analyser pour définir les concepts d'actif net et de passif net.

• 16ème point spécifique à commenter

(a) Les transactions avec intérêts résiduels (« residual/equity interests ») doivent-elles être définies comme des éléments séparés ?

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

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(a) Le Conseil estime qu'il conviendrait de clarifier les objectifs poursuivis dans ce point, en particulier par rapport aux questions précédentes (12 et 15).

(b) Ayant préalablement défini la situation nette dans les entités publiques comme un solde résiduel, et rappelé que dans un modèle par les flux économiques les transactions avec intérêts résiduels s'avèrent limitées, les transactions avec intérêts résiduels n'ont pas à être définies comme des éléments séparés.

• 17ème point spécifique à commenter

(a) Les critères de comptabilisation doivent-ils répondre aux éléments d'incertitude 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 serait raisonnable pour la comptabilisation des actifs, quel seuil pour la comptabilisation des passifs ?

(a) **Le Conseil n'est pas favorable à la notion de seuil**. Il rappelle le principe retenu pour la comptabilisation des éléments, assis sur l'existence du fait générateur. La question de la mesure se pose dans une seconde phase. La notion de seuil – qui correspondrait à un montant n'est pas retenue.

(b) Non applicable, le Conseil n'étant pas favorable à la notion de seuil.

• 18ème point spécifique à commenter

Peut-on utiliser les mêmes critères pour la décomptabilisation ?

Le Conseil considère que les mêmes critères doivent s'appliquer pour la comptabilisation et la « décomptabilisation ». Cette question mériterait néanmoins d'être instruite de façon plus approfondie.

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• 19ème point spécifique à commenter

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

Dès lors que l'on considère que le fait générateur est le critère fondamental pour comptabiliser un actif ou un passif, les critères de comptabilisation font de facto partie de cette définition.

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ANNEXE 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Création du Conseil de normalisation des comptes publics et champ de compétence

Le Conseil de normalisation des comptes publics a été créé par la loi de finances rectificative du 30 décembre 2008, et remplace le Comité des normes de comptabilité publique.

Ce nouveau Conseil est en charge de la normalisation comptable de toutes les entités exerçant une activité non marchande et financées majoritairement par des ressources publiques et notamment des prélèvements obligatoires.

Entrent dans son périmètre l'Etat et les organismes dépendant de l'Etat, les collectivités territoriales et les établissements publics locaux, et la Sécurité sociale et les organismes qui lui sont assimilés.

Cette extension de périmètre par rapport à l'ancien Comité des normes de comptabilité publique qui était en charge de la normalisation des comptes de l'Etat français se justifie par la nécessité de définir une politique de normalisation comptable cohérente au niveau de l'ensemble des administrations publiques.

2. Mode de fonctionnement du Conseil de normalisation des comptes publics

Le Conseil est un organisme consultatif placé auprès du Ministre chargé des comptes publics qui doit donner un avis préalable sur tous les textes réglementaires comportant des dispositions comptables applicables à des entités entrant dans son champ de compétence. Il peut également proposer des dispositions nouvelles et doit participer aux réflexions sur la normalisation comptable au niveau national et international. Ses avis sont publics.

Le Conseil est dirigé par un Président nommé par le Ministre chargé des comptes publics et ses attributions sont exercées par un Collège composé de dix huit membres dont neuf membres de droit et neuf personnalités qualifiées. Le Président et le collège sont assistés par trois commissions permanentes et un comité consultatif d'orientation. Les trois commissions permanentes sont les suivantes : « Etat et organismes dépendant de l'Etat », « Collectivités territoriales et établissements publics locaux », « Sécurité sociale et organismes assimilés ».

Le Conseil dispose d'une équipe technique permanente placée sous l'autorité du Président et dirigée par un secrétaire général.