INTERNATIONAL FEDERATION
OF ACCOUNTANTS
545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: http://www.ifac.org

Agenda Item
4C

Date: September 2, 2011
Memo to: Members of the IPSASB
From: Alister Mason
Subject: Review of Submissions to Consultation Paper #2: *Elements and Recognition in Financial Statements*

Objectives of this Session

1. The objectives of this session are:

   - To carry out a preliminary review of responses to the Conceptual Framework Phase 2 Consultation Paper, *Elements and Recognition in Financial Statements* (Framework–CP2);
   - To obtain directions on approach to be adopted in forthcoming Exposure Draft, where appropriate; and
   - To identify issues for further detailed consideration at the December meeting.

Action Required

2. The IPSASB is asked to:

   - **Consider** the issues identified in the agenda material and staff views thereon, and provide directions for the further development of the Framework; and
   - **Identify** the issues on which further discussion should be focused at the December meeting and **provide** directions on further analysis and materials necessary to support such discussion.

Agenda Material

3. The following agenda material is attached to this memorandum:

   4C.1 Overview of responses by geographic location, function and language
   4C.2 Staff summary and collation of responses received

   Other relevant materials previously distributed:

   A copy of Framework–CP2; and
   A copy of all submissions received.

Background

4. Framework–CP2 was approved at the IPSASB's November meeting and issued on December 15, 2010 with a consultation period that expired on June 15, 2011. At the March 2011 meeting an Education Session on the Assets and Liabilities-led

and Revenue and Expenses-led approaches was held, led by Ken Warren and David Bean.

5. As at August 30th, 35 responses had been received. Any responses that are received after August 30th will be circulated to Members or tabled at the meeting, but will not be incorporated in staff summaries or analyses. An analysis of the respondents by region, function and language is included at Agenda Item 4C.1. A collation of the responses together with Staff comments is provided at Agenda Item 4C.2.

6. The collation of responses summarizes respondents' comments on the Specific Matters for Comment (SMCs) in Framework–CP2 and gives Staff comments where appropriate. This memorandum provides a preliminary analysis of key issues identified by Staff and considers some of the other matters raised by respondents. SMCs are addressed through the analysis of key issues rather than sequentially. As with all summaries and analyses, judgment has been necessary in categorizing and interpreting responses and drawing out major points made by respondents. It is therefore important that Members, Technical Advisors and Observers refer to the responses themselves rather than relying on the staff analysis.

General Comments

7. Staff has not considered it appropriate to provide an overall assessment of the level of support for Framework–CP2, since Framework–CP2 did not include preliminary views. A number of respondents emphasized the importance of the Conceptual Framework and this phase in particular; e.g., Respondent 15:

   "....we wish to emphasize that IPSASB's Conceptual Framework Project is a milestone in public sector accounting and that the subproject "Elements and Recognition in Financial Statements" is of great theoretical and practical importance. In our opinion the board has asked the right key questions in this consultation paper."

8. Staff has assumed that analysis of each SMC in Framework–CP2 will lead to a position that will be reflected in the Exposure Draft (ED) on elements and recognition. As each SMC is discussed in this memorandum, an "Action Required" is set out in a text box. Where Staff believes that there is sufficient clarity on a particular issue to move forward to the ED without further discussion at a subsequent meeting, Members are asked to confirm that view at this meeting. Where, however, Staff believes that the complexity of the issues and the issues raised by respondents require further discussion at the December meeting (e.g., the method of accounting for revenues and expenses, and closely-related issues with an effect on the definitions of elements), Members are asked to provide directions on further materials or analyses that might facilitate further discussion.

9. Some respondents made general comments on the CP that related to the overall project rather than to elements and recognition. These included:

   - Highlighting the dislocation between the overall scope of the project and the restricted focus of Phase 2 on general purpose financial statements; and

- The desirability of consistency with the IASB's Framework and a view that IPSASB should defer further development of the project until the IASB has made more progress with the revision of its project.

10. Staff acknowledges that the narrower scope of Framework–CP2 is not consistent with the "more comprehensive" scope proposed in Phase 1 and reflected in the approach to presentation in Phase 4. The narrower scope was noted in Framework–CP2. Staff acknowledges the views of a number of respondents who have reservations about divergences from the IASB Framework, but notes that the IPSASB has been firm in its intention to develop a framework that is appropriate for the public sector, not just an interpretation of the IASB Framework. These issues are not addressed further in this memorandum.

11. Respondents made a few comments on matters that are relevant to elements and recognition, but not directly to the SMCs. Staff comments on these are included in the collation. One of particular potential significance is that by Respondent 30: "IPSAS states in the preamble that IPSASB is committed to convergence with GFS where appropriate, but a number of matters are not compatible with GFS." In the view of Staff, there should be greater reference to the relevant requirements of GFS 2001 as this phase of the project proceeds, as there has been in Phases 1 and 3.

Key Issues

12. The CP included 19 SMCs. In analyzing responses Staff have identified 11 key issues:

- Approach to determining revenues and expenses (SMC 11);
- Defining an asset (SMC 1);
- Associating an asset with a specific entity (SMC 2);
- Past event necessary to definition of an asset? (SMC 3);
- Defining a liability (SMC 6);
- Specific external party needed to define a liability, and approach to avoiding an obligation (SMC 7);
- Past event necessary to definition of a liability (SMC 8);
- Whether public sector entity obligations arise only from enforceable claims (SMC 9);
- Exclusion of transactions with residual/equity interests from revenues/expenses (SMC 12);
- Need to identify deferrals on the statement of financial position (SMC 14); and
- Requirements for recognition criteria (SMC 17).

13. These issues are set out in the order in which they are listed in Framework–CP2, except for the approach to determining revenues and expenses, which is examined first because of its pervasive importance. A number of SMCs contained two or

three components, some of which did not appear to raise difficult or contentious points. In order to avoid confusion by discussing different components of the same SMC in different parts of the memorandum, they are covered in this Key Issues section.

14. In the following analysis, Staff indicates the balance of respondents who supported or opposed the various options provided. Staff recognizes, however, that the number of respondents supporting or opposing a particular option is less important than the supporting reasoning.

Approach to determining revenues and expenses (SMC 11)

15. SMC 11(a) asked:

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)?

16. Of the respondents who commented on the SMC, a small majority (53%) supported the asset and liability-led approach. However, it is clear that the respondents have widely-varying views of the impact of the two approaches: one stated that in most circumstances the two approaches should yield identical results (Respondent 24), another stated that the Conceptual Framework should be aligned with both approaches (Respondent 35), and a third stated that one approach is applicable to budget performance and the other to equity performance (Respondent 3). Two respondents questioned the accuracy of the examples in the CP (Respondent 24 and Respondent 28), one noting that both examples focus on the reporting of revenue, but do not illustrate differences in the reporting of expenses. (Further comments on the examples are reported in paragraphs 22 and 23 below).

17. In addition to the comments made in responding to SMC 11(a), several respondents indicated the importance that they attach to this issue by referring to it in the introductions to their response letters (Respondents 2, 5, 14, 21 and 25). Respondent 25 thought that if the revenue and expense-led approach "were articulated more clearly, it may be feasible to identify the conceptual difference between the approaches and reduce the risk of disagreements based on misunderstandings."

18. Some also commented on this matter in responding to SMC 13(b). For example, "…in our view, which is shared by most other senior Canadian governments, the revenue and expense led approach best supports the balanced budget framework under which Canadian governments operate" (Respondent 5).

19. SMC 11(b) asked:

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

20. Among the arguments raised in support of the revenue and expense-led approach were (a) that it results in a more accurate measure of the inflows and outflows of

the entity during the period, and, reflecting the view of Respondent 5 above, (b) that it provides a clearer alignment with the budgetary frameworks under which most public sector entities operate. Proponents believe that it facilitates inter-period equity, and fully reflects the annual cycle of financial reporting. Many of the respondents supporting this approach are financial statement preparers.

21. Those supporting the asset and liability-led approach maintain that it permits more robust definitions of elements, and avoids both (a) the subjectivity of determining the applicability of revenues and expenses to particular periods, and (b) having to recognize deferred inflows and deferred outflows. Proponents consider that, in contrast to the revenue and expense-led approach, it properly represents economic phenomena, e.g., Respondent 30. Also, it is in harmony with the existing IASB Framework – although supporters of the revenue and expense-led approach counter that differences between the private and public sectors militate against a common conceptual framework.

22. One of the respondents to this question (Respondent 30) expressed the view that more detailed and comprehensive examples should be provided, to illustrate transactions such as valuation changes, losses/write-offs, and changes to the expected amount and timing of transactions. This observation supports the comments made in paragraph 16 on possible shortcomings or limitations in the examples.

23. There was also a detailed comment in SMC 13(b) on the examples. This included: "The second example was focused solely on the recognition of tax collections without occurrence of any related expense(s). There was no illustration of a reporting entity dealing with non-capitalizable expenses incurred during the period under an asset and liability-led approach as compared to a revenue and expense-led approach" (Respondent 19).

24. In the view of Staff, the fundamental significance of this issue and the range of respondents' views necessitate further discussion at the December meeting.

> **Action Required**
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> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED and the nature of such materials.

Defining an asset (SMC 1)

25. SMC 1(a) asked:

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?

26. The respondents who commented on this SMC were almost evenly divided between those that favored the inclusion of all three types of benefits in the definition of an asset (51%), and those that favored the inclusion of just some of them in the asset definition (46%). Among the latter group, almost all would include both service potential and net cash flows, with one (Respondent 26) observing that service potential is necessary but not sufficient to cover the definition of an asset. However, all in the latter group expressed reservations about unconditional rights to receive resources, for reasons including the need for clarification, the difficulty of definition or measurement, or its possible contingent nature. One respondent expressed concern that unconditional rights could be interpreted so broadly that crown lands, forests, water and mineral rights could require recognition (Respondent 5).

27. Because of the variety of views on whether the definition of an asset should include unconditional rights to receive resources, Staff is of the view that this issue needs to be discussed further at the December meeting.

> **Action Required**
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> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

28. SMC 1(b) asked:

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

(i) Economic benefits and service potential; or

(ii) Economic benefits?

29. A majority of respondents (67%) wanted both economic benefits and service potential to be included in the definition of an asset. A minority (20%) preferred that only economic benefits be used. Most of this minority considered that service potential was covered by the term "economic benefits" and regarded a specific reference to "service potential" as superfluous; for example, Respondent 23 stated that "economic benefits" encompasses the concepts of both future net cash flow and future service potential.

30. Staff takes the view that the nature of public sector assets, in particular the fact that many assets are non-cash-generating, merits specific mention of service potential in the definition of an asset.

> **Action Required**
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> Members are asked to **confirm** Staff's view that both economic benefits and service potential should be used in the definition of an asset.

Approach to associating an asset with a specific entity (SMC 2)

31. SMC 2(a) asked:

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?

32. Close to half of the respondents who commented on this SMC (43%) viewed control as being the appropriate criterion for associating an asset with a specific entity. A small minority (9%) supported risks and rewards and a slightly larger minority few (12%) access to rights. Some respondents (e.g., Respondent 14) considered that an evaluation of risks and rewards might provide an indication of control. Several favored a combination of two or more of the three attributes. Among this last category:

- A few wanted a combination of control and risks and rewards;
- A few preferred a combination of control and access to rights;
- One (Respondent 16) noted that the criteria might vary according to the nature of the reporting entity (an institutional account, a ministry statement, or an entire state); and
- Another (Respondent 25) preferred that factors associating an element with an entity should be treated as recognition criteria rather than aspects of an element's definition.

33. One of the above comments serves as a reminder that this project needs to cover the full range of public sector entities – not just state and national governments, where the emphasis in Framework–CP2 may have been perceived by some to have been. However, there is no intent to apply the framework differentially, but rather to present high-level principles that are applicable to the whole sector; Staff considers that differential application is a standards-level issue.

34. In the view of Staff, control is key in that, with control, an entity has the ability (as stated in paragraph 2.28 of Framework–CP2) "to determine whether to (a) directly use the present service potential to provide services to citizens; (b) exchange the present service capacity for another asset; and (c) employ the asset in any of the other ways it may provide benefit." Without control, one or more of these may not be possible.

35. Staff believes that on this issue there may a basis for agreement on the primary criterion for associating an asset with a specific entity being control.

Action Required

Members are asked to **confirm** Staff's view that control should be used as the primary criterion for associating an asset with a specific entity.

36. SMC 2(b) asked:

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?

37. Here the respondents were almost equally divided between those that agreed (46%) or disagreed (43%) with the principle underlying the question. Those disagreeing included two (Respondents 18 and 23) who saw an enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access as being an indicator, rather than a precondition; another (Respondent 21) saw it as necessary, but not sufficient on its own, to demonstrate an entity's link with an asset.

38. Staff believes that the discussion of this issue will need to be continued at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

39. SMC 2(c) asked:

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

40. Four respondents (18%) identified additional requirements that they considered necessary to establish the link between an entity and an asset:

- Respondent 3 noted that for public domain assets, the constraints on them will depend on the laws of each country;
- Respondent 4 pointed out that where the entity owns rights to the asset, such as copyrights, patents and trademarks, it would also be able to convert those rights into cash;
- Respondent 5 noted that public sector organizations perform a service on behalf of the public, but may not have the risks and rewards of the relevant asset, e.g. fishing quotas; and
- Respondent 31 stated that while the CP notes that resources may arise from contractual rights, they may also arise from legislation.

41. Staff believes that the foregoing points should be borne in mind in drafting the ED, but will not require further discussion at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that there are no additional requirements necessary to establish a link between the entity and an asset in the definition of an asset.

Past event necessary to definition of an asset? (SMC 3)

42. SMC 3 asked:

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

43. A few respondents (19%) thought that it is sufficient to state that an asset is a present resource; more considered that a past event must occur. However, a significant number (41%) thought that, while not necessary, it would be helpful or desirable for there to have been a past event. Comments from this latter group included:

- The reference to a past event is helpful; for an asset to have come into existence, there must have been a past transaction or event (Respondent 2);
- The occurrence of a past event provides further evidence of the existence of a present resource (Respondent 4); and
- The occurrence of a past transaction or event may be crucial evidence that prompts an entity to evaluate whether it has a present resource resulting from that transaction or event (Respondent 23).

44. Staff agrees with the tenor of Respondent 4's response that while identification of a past event is a highly useful indicator of the existence of a present resource, the identification of a past event is not essential to the definition of an asset.

Action Required

Members are asked to **confirm** Staff's view that, while a past event is a useful evidence of the existence of an asset, it is not an essential characteristic.

Defining a liability (SMC 6)

45. SMC 6(a) asked:

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.

46. A few of the respondents (15%) stated that all four types of the obligations listed should be covered by the definition of a liability, while more than half (55%) indicated that just some should be. Among the latter group a wide range of views was expressed, the only common denominator being that type (iv) was almost invariably mentioned as not being a liability. Some would just include type (i) in the definition, some types (i) and (ii), some types (i) and (iii), and the rest types (i), (ii) and (iii). One respondent (14) noted that there is a fundamental conceptual difference between obligations arising through legislation and those that do not.

47. In light of the variety of considerations raised, Staff is of the view that this issue will require further discussion at the December meeting.

> **Action Required**
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> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

48. SMC 6(b) asked:

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

49. The overwhelming majority (83%) of those responding to this SMC were of the opinion that a settlement date is not an essential characteristic of a liability. However, some stated that a settlement date helps to better identify a liability; for example, "…a settlement date may be useful as an indicator that a liability exists in the context of a contractual arrangement, but it is not always relevant or necessary" (Respondent 18). The small number of respondents (10%) who thought that a settlement date is an essential characteristic of a liability gave as reasons: (a) a settlement date denotes that a liability is really due (Respondent 4); (b) a settlement date distinguishes a liability from equity (Respondent 23); and (c) without a settlement date, there will be no future sacrifice of economic benefits (Respondent 35).

50. Staff does not find these reasons for requiring a settlement date persuasive. In the public sector certain liabilities do not have a settlement date, and omitting them would not faithfully represent the entity's liabilities.

51. Based on the foregoing, Staff considers that a settlement date is not an essential characteristic of a liability.

> **Action Required**
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> Members are asked to **confirm** Staff's view that the requirement for a settlement date is not an essential characteristic of a liability.

Specific external party needed to define a liability, and approach to avoiding an obligation (SMC 7)

52. SMC 7(a) asked:

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?

53. A large majority (75%) stated that the ability to identify a specific outside party(ies) is not an essential characteristic in defining a liability. The minority (18%) included such statements as:

- A liability can only materialize if the identity of the other party is known (Respondent 4).
- The ability to identify a specific party outside the reporting entity should be considered essential; where such a party cannot be identified, there may be a contingent liability (Respondent 9).
- The identification of a third party is fundamental in the recognition of a liability, but this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known (Respondent 27).

54. Again, Staff is not persuaded by this reasoning. In the public sector there are many instances where a specific party outside the reporting entity cannot be identified in relation to a liability. Omitting these would result in an understatement of liabilities.

55. Staff considers that, based on this reasoning, the ability to identify a specific outside party is not essential to defining a liability.

Action Required

Members are asked to **confirm** Staff's view that the ability to identify a specific outside party(ies) is not an essential characteristic in defining a liability.

56. SMC 7(b) asked:

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

57. A very large majority (85%) agreed with this statement. The two negative views were that the ability to avoid an obligation should be treated as a possible recognition criterion (Respondent 25), and that this could lead to the recognition of liabilities for which the legal obligation is not established (Respondent 27).

58. Staff cautions that the response should be interpreted carefully, as it seems questionable whether there is a consensus on what a realistic alternative to avoiding an obligation entails. In this context, Respondent 30 notes that the concept of unavoidability should be considered in conjunction with the obligating event being outside the control of the entity, and recommends that further guidance should be included in the ED as to the definition of "realistic". The response therefore needs to be considered with the response to SMC 7(c).

59. The foregoing leads the Staff to the view that discussion of this issue will need to be continued at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

60. SMC 7(c) asked:

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

[The three approaches identified in paragraph 3.28 of the CP are:

(a) Enforceable contractual, constructive, and equitable obligations.

(b) Enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions.

(c) Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw.]

61. A small number of respondents (21%) favored an approach that is limited to enforceable obligations, i.e. approach (a). One of these stated "in the under developed regions having fragile political systems, the only realistic approach is (a)" (Respondent 9). The same number (21%) favored (b); with one commenting "This approach encompasses constructive and equitable obligations associated with exchange transactions where there is no legal basis for enforceability, but where there is no reasonable alternative to avoid the obligation" (Respondent 20).

62. A larger group (41%) favored (c). A comment from a respondent in this group was:

"Unlike commercial enterprises, public sector entities are often subject to strong social expectations (e.g. through policy and program announcements) that often leave the Government with no real alternative. Therefore, ACAG believes liabilities should not be limited to legal obligations, but should extend to enforceable contractual, constructive, equitable obligations and all other constructive and equitable obligations for which the entity cannot realistically withdraw" (Respondent 1).

62A. Staff notes that this comment implies that program announcements themselves, as opposed to legislation, give rise to obligations. In the view of staff this would lead to the recognition of a large number of commitments as liabilities.

63. Staff is of the view that discussion of this issue will need to be continued at the December meeting.

Past event necessary to definition of a liability? (SMC 8)

64. SMC 8 asked:

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

65. Nearly one third of the respondents (30%) considered that it was sufficient to state that a liability is a present obligation, one of these stated "a past event may indicate the existence of a present obligation, but it is not an essential component of the definition of a liability" (Respondent 21). A larger number (43%) thought that a past event is necessary, using reasoning such as "A past event must systematically be identified (or identifiable) for an obligation, and hence a liability to be recognized" (Respondent 27).

66. Several (24%) took an intermediate position: that a past event is helpful or desirable, but not necessary. One respondent reasoned "A past event may be useful as an indicator that a liability exists" (Respondent 18). Another noted that reference to a past event is helpful in distinguishing mere current expectations of future outflows from past transactions and events (Respondent 2).

67. Staff believes that while identification of a past event is a highly useful indicator of the existence of a present liability, the identification of a past event is not essential to the definition of a liability. This also parallels the view of Staff with regard to a past event in relation to the existence of an asset (SMC 3).

Action Required

Members are asked to **confirm** Staff's view that, while a past event is useful evidence of the existence of a liability, it is not an essential characteristic.

Whether public sector entity obligations arise only from enforceable claims (SMC 9)

68. SMC 9(a) asked:

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?

69. A few of the respondents (13%) saw public sector entity obligations as perpetual obligations. One respondent stated that it considered the inherent responsibilities of government to provide security, health, education and other services to its citizens result in the existence of perpetual obligations to transfer benefits to another party and that the government has no realistic alternative to avoid these obligations, and therefore they are a liability (Respondent 18). A larger number of respondents (37%) saw public sector entity obligations as obligations only where there are enforceable claims; one observed that a government's responsibility should only be considered obligations when they lead to enforceable claims – the existence of a program/responsibility is not sufficient evidence of an obligation (Respondent 23).

70. However, half of the respondents (50%) had other views (which were not necessarily expressed in terms of "an appropriate intermediate event"). For example, one respondent stated that it considered obligations to provide social

benefits to be liabilities that may qualify for recognition, but does not support depicting such obligations as 'perpetual obligations' because they are continually settled and replaced with new obligations (Respondent 25).

71. In the view of Staff, the complexities of this issue mean that it will require further discussion at the December meeting.

> **Action Required**
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> Members are asked to **confirm** that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

72. SMC 9(b) asked:

Is the enforceability of an obligation an essential characteristic of a liability?

73. Over half of the respondents (52%) considered that enforceability is essential. A substantial minority (33%) disagreed. This does not appear to be fully consistent with the views expressed in SMC 7(c), where few respondents appeared to see enforceability as being essential in defining an obligation, and suggests that there is some uncertainty about what "enforceability" means.

74. This is illustrated by some of the comments from respondents. Respondent 13 supported the view that enforceability is an essential characteristic and wrote "Enforceability can arise from contractual, constructive political or moral obligations." For this respondent a moral obligation is enforceable. One who disagreed explained "Enforceability of an obligation is not an essential characteristic of a liability, as obligations may also arise from moral or ethical consequences that cannot be legally enforced" (Respondent 5).

75. A few other respondents (15%) expressed different views, for example, one considered that if an entity wishes to recognize obligations beyond those that are enforceable, on the basis that it intends to comply with those obligations to carry out its mandate or for other justifiable reasons, it should be allowed but not required to do so (Respondent 19). This seems to imply too much discretion to preparers and would, in the Staff view undermine comparability.

76. Staff believes that with the complexity of this issue, and its relationship with SMC 9(a), it will not be practical for the Members to reach a decision at this meeting.

> **Action Required**
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> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

77. SMC 9(c) asked:

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?

78. Framework–CP2 noted that some suggest that sovereign power enables a government to walk away from many of its obligations. Framework–CP2 put forward a view that any discussion supporting the definition of a liability should specify what underlying assumption is made about the specific power of government and suggested that one approach might be to base the determination of whether a liability exists by reference to the legal position at the reporting date, rather than a strict application of sovereign power. Over half of the respondents expressing a clear view on this issue (and 43% of those providing comments) considered that the liability definition should include an assumption about sovereign power, while just under half (32% of those providing comments) said that it need not.

79. One respondent in the first group stated that "the definition of a liability must reflect the role that sovereign power plays with respect to government obligations, in particular when it relates to non-exchange transactions, such as transfer payments or contributions to third parties that are dependent on annual legislative approval for continued funding" (Respondent 5). One respondent from the second group observed that it is necessary to assume that at the reporting date the government will meet all its liabilities that it is required to recognize under the relevant financial reporting framework and legislation in place at that time (Respondent 13).

80. Another view expressed was that this is a recognition issue, rather than one affecting the definition of a liability (Respondent 25).

81. Staff considers that the wording of the SMC may have suggested disagreement amongst respondents that does not exist. The large majority of respondents agreed that the existence of sovereign power should not be used as a rationale for the non-recognition of obligations that otherwise meet the definition of a liability and the recognition criteria. Staff believes that the determination of whether a liability exists should be by reference to the legal position at the reporting date, but that this might be addressed in supporting narrative rather than explicitly stated in the definition of a liability.

> **Action Required**
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> Members are asked to **confirm** Staff's view that in determining whether a liability exists reference should be made to the legal position at the reporting date, but that this does not need to be explicitly stated in the definition of a liability.

Exclude transactions with residual/equity interests from revenues/expenses? (SMC 12)

82. SMC 12(a) asked:

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

83. About two thirds of those expressing a clear view on this issue (over 50% of those providing comments) considered that transactions with equity interests should be excluded from revenue and expenses. A respondent who agreed with the exclusion noted that some public sector bodies may receive funding from another part of government, and may remit surplus funds to a higher level of government; such transactions should be excluded from the definitions of revenues and expenses (Respondent 2). A respondent who did not agree with the exclusion observed that transactions with residual/equity interests should not be excluded from revenues and expenses, as long as they are associated with supporting current and future capacity of the reporting entity (Respondent 19).

84. A respondent who did not take a position on this specific issue thought that the nature of the transaction will indicate whether it should be included in the revenue/expense definition: most of the transactions with holders of a residual/equity interest should be included as revenues and expenses at a government level, but this does not apply to minority interests in consolidated statements (Respondent 15).

85. Staff believes that the issue of whether transactions with residual/equity interests should be excluded from revenue and expenses will depend on how those elements are defined. Since the expectation is that those definitions will not be agreed until December, Staff is of the view that this issue will be resolved then too.

Action Required

Members are asked to **confirm** Staff's view that the determination of whether transactions with residual equity interests should be excluded from revenues and expenses should be discussed in more detail at the December meeting, and **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

86. SMC 12(b) asked:

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

87. About a fifth of respondents providing comments supported limiting the definitions to specific types of activities, but the others would not limit them. Two respondents who would limit them stated that under the revenue and expense-led approach they would be limited to activities associated with operations (Respondents 14 and 20). One who would not limit them thought that such classifications are issues of financial statement presentation, rather than of element definition (Respondent 15).

88. Two respondents proposed other approaches to this issue. Respondent 2 recommended that the terms "gains" and losses" be substituted for "revenues" and "expenses". Respondent 30 recommended that the concept of "other comprehensive income" be introduced. Staff notes that the notion of "other

comprehensive income" that was introduced by the IASB in IAS 1, *Presentation of Financial Statements* has not been considered by the IPSASB.

89. Staff believes that because of the relationship of this issue with the basic question of the revenue and expense-led approach vs. the asset and liability approach, this issue will have to be further considered at the December meeting.

> **Action Required**
>
> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

Need to identify deferrals on the statement of financial position? (SMC 14)

90. SMC 14(a) asked:

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

91. Over half the respondents (52%) providing comments favored identifying deferrals on the statement of financial position, while over one-third (39%) did not. Not surprisingly, many of those opposing the identification of deferrals expressed – in SMC 11(a) – support of the determination of revenues and expenses by the asset and liability-led approach.

92. Because this issue is closely related to SMC 11(a), Staff believes that the two issues should be resolved at the same time. Since Staff sees the need to discuss SMC 11(a) at the December meeting, it follows that this issue will have to be carried forward too.

> **Action Required**
>
> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

93. SMC 14(b) asked:

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.

94. This issue was not applicable to many respondents since they had indicated in SMC 14(a) that they did not support the identification of deferrals. Of those responding to SMC 14(b), about two-thirds favored defining deferred

inflows/outflows as separate elements, with most of the rest wanting to include them as sub-components of assets and liabilities.

95. Among those favoring approach (i) – defining deferred inflows/outflows as separate elements, Respondent 29 stated that it supports the establishment of an element to recognize deferred revenue where appropriate and does not support attempts to require deferred revenue to meet a narrow definition of a liability in order to be recognized. Those favoring approach (ii) included one who believes that including deferred outflows and deferred inflows as sub-components of assets and liabilities reflects the true nature of these outflows and inflows, reduces the number of key elements making up the financial statements, and make it easier for statement users to understand (Respondent 4).

96. As with SMC 14(a), Staff believes that the discussion of this issue will have to be concluded at the same time as SMC 11(a), i.e., at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

97. SMC 14(c) asked:

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

[The two definitions in paragraph 5.8 of CF–CP2 are:

(a) Deferred outflow (of resources): an entity's consumption or reduction of new assets that is applicable to a future reporting period.

(b) Deferred inflow (of resources): an entity's increase or acquisition of net assets that is applicable to a future reporting period.]

98. A relatively small number of respondents commented in this issue, as it was only relevant for those that had indicated that deferred outflows should be separate elements in SMC 14(c). Just over half of these respondents considered the definitions to be appropriate and complete, while the others did not. Among the latter, one stated that the definition of deferred outflow "begs the question as to whether capitalized restoration costs concomitantly qualify as both assets and deferrals" (Respondent 30).

99. Again, Staff believes that the discussion of this issue will have to be concluded at the same time as SMC 11(a), i.e., at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

Requirements for recognition criteria (SMC 17)

100. SMC 17(a) asked:

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?

101. Of the respondents that provided a clear answer to this issue, few favored addressing evidence uncertainty by requiring evidence thresholds. One of that minority stated that evidence thresholds provide the most pragmatic approach, and simplest for users to understand; also consistent definitions of the thresholds and criteria for considering when those thresholds have been met in substance would amplify and assist in application (Respondent 23).

102. The overwhelming majority of those expressing a clear view (but only 47% of those providing comments) selected the approach of "neutral judgment based on assessment of all available evidence". (Interestingly, none of the respondents questioned just what is meant by "neutral judgment", a term that was not defined in Framework–CP2.)

103. One respondent supported using neutral judgment to review and assess all available evidence in determining whether there is sufficient evidence to recognize an asset or liability initially, whether it continues to qualify for recognition, or whether there has been an addition to an existing asset or liability (Respondent 18).

104. Based on the foregoing, Staff believes that recognition criteria should address evidence uncertainty by requiring a neutral judgment.

105. SMC 17(b) asked:

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?

106. Because in responding to SMC 17(a), few supported addressing evidence uncertainty by requiring evidence thresholds, there were few responses to SMC 17(b). Those responding all supported having a uniform threshold for both assets and liabilities. The suggestions for such a threshold included "probable" (Respondents 13 and 30), "probable or more likely than not" (Respondent 17) and "expected" (Respondent 23).

107. Should it be decided in SMC 17(a) that neutral judgment be used, the Board will not need to make a decision on SMC 17(b).

> **Action Required**
>
> Members are asked to **confirm** Staff's view that a neutral judgment should be applied in assessing whether an element exists at the reporting date, based on an assessment of all available evidence.

Other Issues Arising from Specific Matters for Comment

108. SMCs that, in the view of Staff, did not give rise to key issues are considered, below.

Whether public sector rights/powers are inherent assets (SMC 4)

109. SMC 4 asked:

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?

110. Most respondents (over 75%) agreed with the statement that they are assets only when the powers are exercised. A typical comment was that the existence of a right in itself does not give rise to a claim to economic benefits or to service potential, but an event or action related to the exercise of this right gives rise to an asset (Respondent 31).

111. In the view of Staff, inherent assets of a public sector entity are assets only when the entity exercises its rights.

> **Action Required**
>
> Members are asked to **confirm** Staff's view that inherent assets of a public sector entity are assets only when the relevant powers are exercised.

Additional characteristics/issues re assets (SMC 5)

112. SMC 5(a) asked:

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

113. Only one respondent identified additional characteristics: assets of the state, given their specific and unique public sector characteristics (Respondent 3).

114. In the view of Staff, this comment does not lead to characteristics that are essential to developing an asset definition. It is probably more of a standards-level issue than a framework issue.

Action Required

Members are asked to **confirm** Staff's view that no additional characteristics are essential to developing an asset definition.

115. SMC 5(b) asked:

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

116. Nine respondents gave examples of additional issues to be considered. These included heritage assets (Respondent 4), budget to actual comparisons (Respondent 5), the difference between administrative assets and non-administrative assets (Respondent 12), conservation (Respondent 31) and social capital (Respondent 17). One of these urged linkages with the ED, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (Key Characteristics ED) (Respondent 23).

117. Staff believes that the question of budget to actual comparisons will be considered with regard to SMC 11(a) and (b), since many of the respondents favoring the revenue and expense-led approach to determining revenues and expenses cite its superiority for making budget to actual comparisons. Staff does not believe that the other matters need to be addressed in this phase, although some highlight areas that may need to be considered in other phases or at a standards-level. The linkage with the Key Characteristics ED will be considered in more detail when the responses to that document are considered later this year or in 2012.

Action Required

Members are asked to **confirm** Staff's view that there are no other relevant issues that need to be considered in determining the concept of assets.

Additional characteristics/issues re liabilities (SMC 10)

118. SMC 10(a) asked:

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

119. Five respondents suggested additional characteristics for the development of a liability definition. These included the significance of materiality (Respondent 1), the concept of accrual (Respondent 3), the IASB's emphasis on obligor (Respondent 7), investment grants (Respondent 12) and unconditional obligations (Respondent 21).

120. In the view of Staff, none of these suggestions are essential to the development of a liability definition.

Action Required

Members are asked to **confirm** Staff's view that there are no additional characteristics that are essential to developing a liability definition.

121. SMC 10(b) asked:

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

122. Several respondents proposed issues and considerations that IPSASB needs to consider in determining the concept of liabilities. These included complex public sector programs, like social benefit programs (Respondents 5 and 20), intervention liabilities (Respondent 14), and significant commitments which, while possibly avoidable or otherwise not recognizable as liabilities, are planned as part of the ongoing responsibilities of the reporting entity (Respondent 17). A possible linkage to the Key Characteristics ED, was mentioned here too (Respondent 23).

123. Staff believes that none of these suggestions give rise to additional characteristics that are essential to determining the definition of a liability.

Action Required

Members are asked to **confirm** Staff's view that there are no additional characteristics that need to be considered in determining the concept of liabilities.

Additional characteristics/issues re revenues and expenses (SMC 13)

124. SMC 13(a) asked:

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

125. Just two respondents suggested additional characteristics for developing definitions of revenues and expenses:

- Explicitly break down the revenue for a particular purpose and the consequential costs, which do not affect the qualitative modification of equity or budget outcome. (Respondent 3)
- The key characteristic of the public sector is that in general revenues and expenses are unrequited. This makes application of the matching principle used in the private sector problematic and hence leads to many of the problems identified in this paper. (Respondent 24)

125A. Staff considers that the first of these points is primarily presentational. Staff assumes that the term "unrequited' has the same meaning as "non-reciprocal" and "non-exchange". Regardless, the matching principle has not been a feature of conceptual thinking in the private sector for most major standard-setters for some time and was also not proposed by the IPSASB.

126. In the view of Staff, no additional characteristics have been identified that are essential to the development of definitions of revenues and expenses.

> **Action Required**
>
> Members are asked to **confirm** Staff's view that there are no additional characteristics that need to be considered in determining the definitions of revenues and expenses.

127. SMC 13(b) asked:

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?

128. Nine respondents identified other issues. These included:

- The importance of determining the triggering event for the recognition of intervention expenses or taxation revenue. (Respondent 14)
- Recognition of revenues and expenses related to such matters as natural resources and guarantees (such as pensions) are not suitable for general purpose financial reporting. (Respondent 16)
- Issues of sustainability. (Respondent 16)
- Linkages with the Key Characteristics ED. (Respondent 23)
- Where governments manage risk effectively, strategies must be disclosed and the results of the strategies recognized. (Respondent 34)

129. In the view of Staff, none of the foregoing issues need to be considered in determining the definitions of revenues and expenses. However, as with SMC 13(a), further discussion of the definitions should take place at the same time that SMC 11(a) is resolved, i.e., probably in December.

> **Action Required**
>
> Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

Net assets/net liabilities and ownership interests (SMC 15)

130. SMC 15(a) asked:

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

131. Among the respondents who expressed a clear view on this issue, nearly half considered net assets/net liabilities to be a residual amount, a few considered it to be a residual interest, one an ownership interest, and several thought that it depended on the entity or the jurisdiction.

132. One of those that consider net assets/net liabilities to be a residual amount noted that there is little information content in this amount (Respondent 2). Among those that would classify it as a residual interest, one said that it reflects the resources available to finance or deliver future services or amounts of past services that need to be funded through future revenues, giving the example of endowments: these are not available to cover in-year expense, but as there is no expectation to pay them out, they are not liabilities (Respondent 5). As to differences between entities or jurisdictions, a respondent said that the status of the net assets/net liabilities balance could vary depending on the nature and sources of funding of the entity, its function, or its legal and constitutional status (Respondent 13).

133. In Staff's view this issue too is likely to depend on decisions made on SMC 11(a) and related issues. If so, it will need further discussion at the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

134. SMC 15(b) asked:

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?

135. A few respondents favored incorporating the concept of ownership interests in the element definition, and nearly half of them opposed this treatment. The others did not express a clear view on the issue.

136. A proponent of incorporating the concept of ownership interests in the element definition stated that they should be clearly defined to ensure that outside claims on net assets are disclosed (Respondent 1). An opponent noted that where such interests exist, they will usually not meet the definition of a liability, should be clearly segregated from other parts of the residual interest, and the surplus of deficit relating to these interests should be transparent – but observed that minority or non-controlling interests in a GBE rarely arise (Respondent 2).

137. In the view of Staff, the concept of ownership interests should not be incorporated in the element definition, since it is a residual that depends on the definitions of assets and liabilities.

Action Required

Members are asked to **confirm** Staff's view that the concept of ownership interests should not be incorporated in the element definition.

138. SMC 15(c) asked:

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?

139. A few respondents noted other issues in determining the concept of net assets/net liabilities. These included:

- Each public sector entity has a distinctively individual history, and so should be allowed to choose how to present net assets/net liabilities to best address the needs of users of their GPFSs. (Respondent 19)
- There should be some discussion of how to transfer resources between units of the general government sector. (Respondent 30)

140. In Staff's view, these issues do not give rise to new considerations.

Action Required

Members are asked to **confirm** Staff's view that no other issues have been identified to consider in determining the concept of net assets/net liabilities.

Transactions with residual/equity interests (SMC 16)

141. SMC 16(a) asked:

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

142. A minority of respondents (27%) favored defining transactions with residual/equity interests as separate elements. One stated that because residual or equity interests should be distinguished from other elements, they should be identified as a separate element (Respondent 31).

143. Comments from others included:

- The objectives underlying this point need to be clarified, with particular reference to SMCs 12 and 15. (Respondents 14 and 26)
- Transactions with residual interest holders could be defined as separate elements, but this would depend on the wording of the definitions. (Respondent 25)

144. In Staff's view, the issue of transactions with residual/equity interests will be difficult to resolve until agreement has been reached on the other elements, which will not be until the December meeting.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

145. SMC 16(b)

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

146. Constrained by responses to SMC 16(a), most respondents did not answer this SMC. Three of those that did agreed with the characteristics set out in paragraph 5.34 of Framework–CP2.

147. Staff believes that this issue should be dealt with in tandem with SMC 16(a), and therefore requires the same action.

Action Required

Members are asked to **confirm** Staff's view that this issue should be discussed in more detail at the December meeting, and to **indicate** whether additional analyses or materials would facilitate reaching a position at that time for development of the ED.

Criteria for recognition/derecognition (SMC 18)

148. SMC 18 asked:

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

149. A large majority (82% and all but one of those expressing a clear view) supported using the same criteria for derecognition as for initial recognition. One observed that if different criteria were used, this may result in assets/liabilities that no longer meet the definition and recognition criteria being reflected in the financial statements, thereby distorting the faithful representation and relevance of the statements.

150. The respondent who saw the need for different criteria for derecognition stated that the criteria may be similar to those for recognition, but must based on the existence of a specific event or transaction that results in the derecognition. (Respondent 20)

151. Staff believes that the same criteria should be used for derecognition as for initial recognition.

Action Required

Members are asked to **confirm** Staff's view that the same criteria should be used for derecognition as for initial recognition.

Recognition criteria part of element definitions? (SMC 19)

152. SMC 19 asked:

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

153. The vast majority of those responding to this issue favored separate and distinct requirements for recognition criteria. Others considered that recognition is integral to the definition of an element (Respondents 14, 20 and 22), or that this would be more convenient for the users (Respondents 1 and 12).

154. While Staff acknowledges the views of those who consider that the integration of definitions and recognition criteria is helpful to preparers, Staff consider that satisfaction of definitions and recognition are two separate processes and therefore the recognition criteria should be separate and distinct from element definitions.

Action Required

Members are asked to **confirm** Staff's view that the recognition criteria should be separate and distinct from element definitions.

Next Steps

155. There should be detailed consideration of issues not decided at this meeting at the December meeting to enable a first draft of an ED to be brought to the March 2012 meeting.

STAFF COLLATION OF RESPONSES TO CONCEPTUAL FRAMEWORK PHASE 2 CONSULTATION PAPER

Purpose:

To present the Staff summary of the comments received on Conceptual Framework Consultation Paper (CF–CP2), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*.

(***Note**: This collation includes only key extracts of each response received to the Framework CF–CP2.These extracts have been grouped to identify respondents' views on key issues. In some cases, an extract may not do justice to the full response. This collation should therefore be read in conjunction with the submissions themselves.)*

List of Respondents:

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

Response #	Respondent Name	Country	Function
020	Government of Canada	Canada	Preparer
021	New Zealand Institute of Chartered Accountants	New Zealand	Standard Setter/Standards Advisory Body
022	Dr. Joseph S. Maresca	USA	Academic
023	Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
024	The International Consortium on Governmental Financial Management (ICGFM)	Supranational	Other
025	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
026	Direction Générale des Finances Publiques	France	Preparer
027	Cour des Comptes	France	Audit Office
028	Office of the Auditor General	New Zealand	Audit Office
029	Province of British Columbia	Canada	Preparer
030	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
031	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
032	The Japanese Institute of Certified Public Accountants	Japan	Member or Regional Body
033	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
034	Government of Nova Scotia	Canada	Preparer
035	Comptroller's Division of Manitoba	Canada	Preparer

R#	GENERAL COMMENTS	STAFF COMMENT
001	*This respondent provided a conceptual model developed to help address two high-level questions raised by the IPSASB consultation papers for Phases 2 and 3: what are the elements of financial reporting, and how should these elements be recognised and measured? A diagram illustrating financial elements to meet information needs is presented. The model "addresses a number of issues not addressed in conventional public sector reporting".*	See Section 1 of the response letter.
002	As stated in other comments letters to the IPSASB Conceptual Framework project, we think it would be unfortunate for the IPSASB and IASB frameworks to diverge markedly without due justification and consider that the revenue and expenses approach would be a radical departure from the Conceptual Frameworks of other standard-setters. Therefore, we support the assets and liability approach. However, we acknowledge the importance of clear reporting of income and expenses particularly in relation to the delivery of services. In our view, however, this can be accommodated within an asset and liabilities framework with, if necessary, explained by narrative or other disclosure. We recommend that the IPSASB consider defining an asset in terms of 'rights or other access to receive future economic benefits' rather than for example 'resources controlled by the entity'. This may affect analysis of cases where more than one entity has rights to use a single resource and can more easily be applied where the asset is itself, simply a right for example, where an entity holds an option. We recommend that the IPSASB reconsider using the terms revenue and expenses as the terms for flows of assets and liabilities as confusion may arise as to whether they include 'one off' items and suggest the terms 'gains or losses' We consider it essential that the framework should set out robust recognition criteria to avoid financial statements being cluttered with items of dubious relevance. There must be adequate evidence that an element exists before it is recognised.	Noted. Issue of divergence from IASB Framework has previously been addressed and is not specific to this Phase. Referred to in Memorandum (Agenda Item 4C.0).
005	The definition of financial statement elements and recognition criteria in the conceptual framework is a significant challenge due to the complex relationship between the public and the government. Ontario supports developing a definition of elements and recognition criteria specifically for the public sector and specifically for the purpose of preparing historical general purpose financial statements. Elements and recognition criteria would need to be different to support other types of general purpose reporting to the public. For example, Ontario is currently working on providing enhanced reporting	Noted. Issue primarily relates to Phase 1 and has been considered in deliberations on that Phase.

R#	GENERAL COMMENTS	STAFF COMMENT
	on infrastructure assets. This reporting will go beyond what is appropriate in historical general purpose financial statements, and may be on a different basis of measurement that addresses general user needs for this type of information. The role of the government in taxing and delivering services, as a steward of public resources and as a regulator, are important concepts that impact the information users need in reporting. In our response to the specific questions posed by the Consultation Papers and the Exposure Draft on the conceptual framework, the following key issues appear: 1. The IPSASB conceptual framework needs to specifically address the role of government and the accountability it has to the public. The conceptual framework needs to acknowledge the existence of constitutional and legislative structures that exist which can impact how governments should report. 2. The IPSASB conceptual framework should be limited to supporting the preparation of General Purpose Financial Statements (GPFS) that meet the informational needs of the general public and not try to encompass broader financial reporting. 3. The conceptual framework should recognize and support the financial accountability relationship governments have with the public, and not try to change the relationship by implementing a sector neutral approach for financial reporting. 4. The public sector in Canada is driven by balanced budget concepts and delivering appropriate services to the public, and not the accumulation of equity or profit maximization. As a result, a revenue/expense approach to measuring government performance aligns best with the objectives of GPFS users in the public sector. 5. The primary users of public sector financial statements need clear and understandable information to gauge a government's performance against approved budgets. GPFS are a cornerstone in accountability reporting showing how the government balanced inflows with outflows of resources. Historical cost provides reliable measurement and faithful representation of government's use of resources, and supports the accountability relationship the government has with the public.	Noted. However, constitutional and legislative arrangements vary across jurisdictions. Noted, point relates to Phase 1. Noted. IPSASB not seeking to implement a sector neutral approach. Referred to in Memorandum, paragraph 17. Noted. Support for historical cost relates to Phase 3 rather than Phase 2.
006	We appreciate the work performed by IPSASB and find the resulting paper highly relevant and interesting.	

R#	GENERAL COMMENTS	STAFF COMMENT
007	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 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.	Noted and raised by other respondents, but not specific to this project.
008	**General Comments** In regard to this consultation paper, I refer to the general comments provided in response to CF-ED 1, 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-ED 1 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.	Noted, primarily relates to Phase 1.
010	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.	Accepted that timetable is challenging, although it has been relaxed since the issuance of the Consultation Paper in December 2010.

R#	GENERAL COMMENTS	STAFF COMMENT
	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 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.	The IASB has been represented on the Advisory Group on the Conceptual Framework and the Vice-Chair is now on the Advisory Group.
011	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.	Noted. The IPSASB made a decision to prioritize the Conceptual Framework project in December 2009. The IPSASB noted at that time that the IPSASB's timetable would lead to some phases being completed before the equivalent IASB phases.

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012	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*.	Noted. Attention will be paid to ensuring that the Exposure Draft is drafted as clearly as possible, bearing in mind the technical nature of the topic.
014	**Letter addressed to Andreas Bergmann** 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. I have to say that we are not comfortable with the question, as it is clear to us that both approaches are relevant and complimentary: 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	View that approaches are complimentary is noted. Exploring the extent to which differences can be harmonized will be a major challenge as Phase 2 moves to ED stage.

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	"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 and 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. **Letter addressed to Stephenie Fox** 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. 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	Referred to in Memorandum, paragraphs 15-24..

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	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. 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.	
015	First, we wish to emphasize that IPSASB's Conceptual Framework Project is a milestone in public sector accounting and that the subproject "Elements and Recognition in Financial Statements" is of great theoretical and practical importance. In our opinion the board has asked the right key questions in this consultation paper. As a global audit firm, we have asked ourselves these questions in particular, also from the perspective of an auditor. In our opinion, accountability is also a question of practical feasibility. From this consideration follows that practical feasibility is a necessary condition for high quality accounting standards.	Noted, particularly the need for 'practical feasibility' at standards-level.
016	Generally, the Danish Agency for governmental management agrees to the idea about making guidelines for how each item in the accounts should be identified and classified. We also find that all assets and liabilities must be identified. Although all assets and liabilities must be identified, that does not mean that all assets and liabilities should also be included in the entity's financial Statement. The decision whether assets and liabilities should be included in the financial statement must be decided on the basis of whether the costs by making a precise and complete measurement commensurate with the benefits associated with such a practices, cf. our comments to the Consultation Paper concerning Measurement of Assets and Liabilities in Financial Statements. In that light we only use cost based accounting in relation to the running operation of the	In Staff's view items meeting an element definition should be recognized if they meet recognition criteria. While Staff acknowledges that financial statements can and should enhance the management of an entity the primary focus should be on meeting the needs of external users.

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	entity. In Denmark the purpose of the financial statements of the central government agencies is to support the monitoring and comparison of the performance and application of resources in the institutions. In addition, the Danish accounting requirements supports good business management in the public sector. The content of financial statements should form the basis for pricing on public services and measurement of the use of appropriations. Hence, only revenue and expenses as well as assets and liabilities are recognised in the financial statements with value, if the items are part of operating activities. Visibility of pricing and the focus on operating activities are the reasons why e.g. donations do not impact the income statement and why heritage assets do no impact the balance sheet with value. Furthermore we find it important to underline that the recognition of assets and liabilities must be based on definitions which are precise and not to wide as you otherwise risk too use disproportionate many resources in identifying and measuring items which are not relevant in relation to the financial statement.	
017	CIPFA strongly supports IPSASB's programme which helpfully develops public sector specific IPSASs on matters which are unique to the sector, and IFRS converged IPSASs on matters which are relevant to both private and public sectors. The conceptual work will inform the development of standards in future and we support the objective of achieving an optimum balance between maintaining comparability between sectors and addressing sector specific issues. CIPFA therefore welcomes the continuing development of IPSASB's important work in developing a conceptual framework for public sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters. The importance of this work is particularly clear given developments in IFRS which may make it more difficult to apply those standards or the IASB conceptual framework directly to the circumstances of public sector entities. Because this work is so important, it is vital that the development of the framework is rigorous and is followed up by standards developed in an equally rigorous manner, supported through transparent consultation. In the Board's previous consultation UK stakeholders expressed reservations about the	Reservations over scope noted. Primarily relate to Phase 1 and the Work Plan.

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	widening of scope beyond matters which have traditionally been included in public sector financial reporting. CIPFA welcomes the current Exposure Draft's explanation of the way in which the Board approach the evolution of wider scope reporting. In particular we welcome the acknowledgement that IPSASB may address wider reporting needs through non-authoritative guidance. Even so, we would note that the Board has limited resources, and is committed to a substantial workload in completing development of the Conceptual Framework and more mainstream development such as an IPSAS on Entity Combinations and 'maintenance' of converged IPSAS, such as Financial Instruments, where the relevant IFRS are undergoing substantial change. Given this we would urge caution in pursuing development of wider reporting beyond those topics, such as Long Term Fiscal Sustainability, which the Board has included in its work plan after specific consultation on the Board's agenda.	
018	The Joint Accounting Bodies preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. However, we acknowledge that this is not the way that standard setting internationally is structured today. Nevertheless, we encourage the IPSASB to continue to initiate dialogue with the Trustees of the IFRS Foundation about the imperative for action to expand the objective of the IASB to develop a single set of accounting standards appropriate for all sectors. The Joint Accounting Bodies will continue to make such representations nationally and internationally. The Joint Accounting Bodies consider the completed conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the public sector and the private for-profit sector respectively. However, the journey to completion is not proceeding contemporaneously. The IASB/FASB has decided not to proceed yet with a discussion paper on elements and recognition. We believe it appropriate that the IPSASB has exposed its thinking on this topic. However, we are concerned that differences in the decisions of the IPSASB and the IASB/FASB (when they eventually get to this topic) may prove problematic for transaction neutral jurisdictions like Australia should jurisdictions choose to maintain the approach of one set of standards and at the same time ensure that international investors understand that the financial reports of for-profit entities accord with the International Financial Reporting Standards (IFRS). To militate against the risk of this outcome, we encourage the IPSASB to maintain dialogue with the IASB/FASB on this topic and other conceptual framework topics.	Noted. See above point on IASB representation on Advisory Group.
019	The Task Force appreciates the work that the IPSASB is carrying out in developing	The point about the interchangeability

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	accounting standards for public sector entities and international organizations such as those making up the United Nations System. The Conceptual Framework Consultation Paper Phase 2 is an important development since it is part of a series of the expected consultations papers and exposure drafts of the IPSASB Conceptual Framework. The Conceptual Framework is envisaged to make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports. All United Nations System organizations are looking forward to the development and finalization of the IPSASB Conceptual Framework. **General Comments** 4 We support the IPSASB efforts in developing the conceptual framework and have the following general comments pertaining to our understanding of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (Consultation Paper): (a) General Purpose Financial Statements (GPFSs) and General Purpose Financial Reports (GPFRs) are sometimes used interchangeably in the Consultation Paper, whereas Exposure Draft 1 (ED 1) makes a clear distinction between these two items. For example, para. 2.2 of the Consultation Paper defines users of financial statements as recipients of goods and providers of resources, although these major groups of users were first identified by ED 1 as users of GPFRs. IPSAS 1, which is one of the Standards regulating GPFSs, defines users differently. The Task Force recommends that the terms GPFSs and GPFRs be used more consistently. (b) ED 1 states that GPFSs and notes thereto remain at the core part of the GPFRs, however the latter can report information about the past, the present and the future that is useful to users. Such information include financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs. Our understanding is that IPSAS 1, para. 18, already introduced a concept of reporting on achievement of service delivery and financial objectives as supplementary information to better meet needs of users for decision-making and accountability. The difference between reporting such information under IPSAS 1 when preparing GPFS or under Conceptual Framework when preparing GPFRs is not clearly outlined. The Task Force is of the view that when the Consultation Paper progresses to draft Exposure Draft, the latter should clarify the relationship between GPFSs and GPFRs in this regard and provide criteria which can be used to clearly distinguish between GPFRs as opposed to	of GPFRs and GPFSs is acknowledged and is attributable to the narrower focus of Framework-CP2. Provisions of paragraph 18 of IPSAS 1 noted. Staff does not consider that the provision of information in notes to the financial statements precludes addressing this information area elsewhere in the GPFRs. This issue is under consideration by the Overarching Issues Task Force.

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	GPFSs which include supplementary information on achievement of service delivery and financial objectives. We assume that the draft Exposure Draft will also address implementation issues of the transition from GPFSs to GPFRs for those reporting entities who will choose to conform to guidance provided by the Conceptual Framework. (c) Discussion of the Consultation Paper on elements and recognition in financial statements (including majority of examples) is biased heavily towards specific attributes and challenges of governments, making it less useful and applicable for use by other public sector entities. The Task Force is of the view that IPSASB should expand consideration of issues when progressing the Consultation Paper to draft Exposure Draft to make them more applicable and useful to public sector entities other than governments.	
020	We commend the IPSASB for recognizing the importance of developing a robust conceptual framework as the basis for IPSAS and we believe it is extremely important to consider the unique needs of the public sector and assess the definitions of elements and their recognition within this context. This may result in some deviation from the framework for international private sector standards, but we believe the unique operating environment of the public sector must be reflected in the conceptual framework. As a general comment, where it was suggested that comments not consider recognition and measurement, we would caution that the discussion of the definition of elements of financial statements must be carried out in tandem with recognition and measurement. We believe it is imperative that the impact on recognition and measurement be understood fully in order to make appropriate decisions with respect to the element definitions.	Links with Phase 3 acknowledged. Staff thinks that this will become increasingly apparent if/as concepts of capital and capital maintenance are addressed.
021	We would like to thank the IPSASB for devoting resources to the development of this Consultation Paper and encourage the IPSASB to continue providing a forum for international debate on these issues. We have two key comments. First, we consider that the definition of assets and liabilities should be generic and allow for the identification of a wide range of rights and obligations, including the right to tax and social benefit obligations, but the definition should be independent from recognition criteria. Secondly we support an 'asset and liability-led approach' to the determination of revenues and expenses.	These issues are referred to in Memorandum.
022	General Purpose Financial Statements focus on the various aspects including the financial	Many of these issues are addressed in

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	portrayal of past events. The objective of financial reporting is to provide useful information to a variety of stakeholders including: o entities for the use of resources economically o cost accumulation o taxes to meet services and provider needs Assets point to the right to receive benefits or an intangible resource. The issuance asks the question as to whether or not an asset exists if no cash is generated per se. Assets can remain within the earth for centuries although no cash is generated. The relevant event is discovery, the existence of provable reserves and investors to provide capital for the extensive exploratory and extraction costs. Is there an asset when economic benefits are received via unconditional rights? How should unconditional risk be dealt with? Is the reporting entity asset under control of the government or other entity? What are the risks, access to rights, ability to deny access and claims enforcement? Customarily, rights are accessed as a result of a statute with rule structures, qualification guidelines and funding sources like employer/employee deductions, self-employment taxes and other inflows to pay for the services. Sometimes "sin taxes" are another source of funding for unhealthful dietary choices. Does an asset arise from a past transaction or event? If so, is the mandate funded? This is one of the most contentious areas of social benefits. The national government may promulgate various mandates for services that the States must provide for without the requisite funding in place. Are taxes an inherent right of the government? Without taxes, there could be no paid for public service except through voluntarism like voluntary fire departments in rural communities. Liabilities are in the nature of an economic obligation, unconditional obligation with performance requirements and payment settlement dates. The Statement addresses the issue of financial performance through the prism of net changes in economic resources or obligations like the Asset/Liability approach or the revenue/expense outflow approach.	Memorandum.

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	The Statement discusses broadening the asset/liability elements to include deferrals. i.e. Deferred inflows/ outflows are treated as separate elements. The disclosure is necessary to preclude delaying the recordation of critical accounting events indefinitely or using "catch all" accounts to obscure a more complete financial picture from emerging.	
023	Thank you for the opportunity to provide input on the proposals in this Consultation Paper (CF-CP2). We feel that this is the critical piece of the conceptual framework project and potentially the one where there will be the most difficulty in garnering consensus. In particular, a decision regarding the approach to financial performance for public sector entities has the potential to fundamentally re-shape public sector generally accepted accounting principles (GAAP) depending on the direction chosen. Further, we wish to encourage the IPSASB to integrate the key characteristics of the public sector more fully into the final framework. The key characteristics of the public sector are the primary reason that the IPSASB chose to do its own conceptual framework project rather than leveraging and converging with the evolving IASB-FASB private sector conceptual framework. Unique aspects of the public sector are mentioned in the CF-CP2 but their implications are not simply and fully set out. The "Key Characteristics of the Public Sector" Exposure Draft approved by the IPSASB at its March 2011 meeting is a critical, overarching umbrella document that needs to be explicitly linked to all phases of the framework. It is important that Phase 2 content not be finalized until such cross-references are incorporated. The key characteristics document should be the touchstone document in the CIA parts of the IPSASB's timetable for the conceptual framework.	Linkage with 'Key Characteristics' document acknowledged. The positioning of the Key Characteristics document will be fully considered when the responses to the ED are analyzed later this year.
025	**General Comments** ***Relationship between the IPSASB and IASB Conceptual Framework projects*** The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to	Acknowledged that differences between the IPSASB framework and the IASB Framework should be based on different circumstances of public sector entities.

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	deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy. Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable. The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work. In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues. In the context of this CP, the AASB recommends that differences between the IPSASB and IASB Conceptual Frameworks in relation to the definitions of, and recognition criteria for, the elements of financial statements should occur (if at all) only when there is a public-sector-specific reason for those differences. This view is reflected in the AASB's comments in this submission. ***Due process*** The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project. **Specific Comments**	Decision on whether to issue an ED of full framework still to be made: see Coordinator's Report (Agenda Item 4.1)

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	The AASB's most significant specific comments regarding the issues in the CP are set out below and elaborated on in Appendix A. ***'Asset and liability-led approach'*** The AASB supports the 'asset and liability-led approach' for identifying revenues and expenses. The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities. An important reason why the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements. The AASB does not consider the 'revenue and expense-led approach' to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an 'asset and liability-led approach', if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A 'revenue and expense-led approach', properly developed and in a form the AASB would find acceptable, might complement an 'asset and liability-led approach'. ***Generic definitions of assets and liabilities*** The AASB suggests defining assets and liabilities generically, without requiring them to have an association with the entity. The AASB considers that it is useful to focus on the nature of economic phenomena (economic benefits and claims to economic benefits) that affect various entities, without restricting definitions of assets and liabilities to only phenomena that affect the reporting entity. It considers that criteria for associating those particular phenomena with the reporting entity should be included in recognition criteria. This approach has the advantages of:	Strong preference for assets and liability-led approach and rationale noted. See Memorandum esp. paragraphs 15-24. Noted. See Memorandum, paragraphs 31-35.

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	(a) keeping the definitions relatively simple and readily understandable; and (b) helping minimise the risk that standard setters and others will 'peek ahead' to consider whether consequences of the definitions for the recognition of assets and liabilities will be desirable and/or consistent with existing conventions. Developing definitions that do not necessarily affect reporting entities should help in focusing on the economic phenomena to be identified as the elements of financial position (and, by derivation, the elements of financial performance). Consistent with this view, the AASB recommends that assets and liabilities should not be limited to items that would necessarily be recognised in financial statements. Accordingly, a government's rights/powers to tax and levy fees and social benefit obligations should be identified as assets and liabilities respectively, although these elements might not qualify for recognition in the financial statements. This approach also lends itself to coping with developments in accounting thought that result in more types of assets being recognised over time. Assets may exist but accounting methodologies regarding recognition and measurement may change. ***'Exchange' and 'non-exchange' transactions*** In various places the CP analyses the implications of transactions for the definition and recognition of elements of financial statements by reference to whether the transactions are 'exchange' or 'non-exchange'. In some of these cases the nature of the transaction potentially determines whether, or when, an element can arise (for example, paragraphs 2.49, 3.33 – 3.34, 3.55 – 3.58, 4.32 and 4.42 – 4.45). The AASB notes that 'exchange transactions' and 'non-exchange transactions' are not defined in the CP and that the discussion of these terms presumes that, at a conceptual level, the distinction between exchange and non-exchange transactions is important (without explaining that presumption). The AASB considers that the issue of whether to distinguish exchange and non-exchange transactions is a standards-level issue only, and that the terms 'exchange' and 'non-exchange' should not (and need not) be used in the IPSASB Conceptual Framework.	See Memorandum, paragraph 109-111. The distinction between exchange and non-exchange transactions was emphasized in the discussion of enforceability in the context of the liability definition. See Memorandum, paragraphs 60-63. Experience of determining when liabilities arise for a range of social benefits have emphasized that existing definitions of liabilities have not been easy to interpret for non-exchange transactions, which are highly important in the public sector. Staff therefore does not agree that completely eliminating the distinction

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	The AASB notes that in various other places (for example, paragraphs 3.14, 3.29, 3.35 – 3.36, 3.45, 3.53, 4.13 and 4.28), reference is made to exchange and/or non-exchange transactions apparently as a clarification (for example, to indicate that the classification of a transaction as 'exchange' or 'non-exchange' is not a significant factor in determining whether a particular element arises or should be recognised). Because the AASB considers that the distinction between exchange and non-exchange transactions is a standards-level issue only, it also recommends omitting these references to 'exchange' and/or 'non-exchange' transactions.	between exchange and non-exchange transactions is appropriate.
026	We welcome the decision of the Board to issue a consultation on the elaboration of a conceptual framework for public entities.	
027	As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation. Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency between variations in the amount of rights and obligations and the expenses and income given in the income statement. The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model. **Introduction** This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity. There are two directly opposed cardinal models on this subject: - a so-called "flow" model in which fiscal year expenses and income and the "financial performance' of a public entity are measured, essentially based on flows of cash without however these flows being totally blended; - a so-called "resources and obligations" model where the fiscal year expenses and	Staff notes the preference for a mixed model, but has reservations as to how far this is attainable.

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	income are charged more directly against variations in assets and liabilities. This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document. ***Flow Model and the Resources & Obligations Model*** The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting: - Central government; - Regional and local government; - Social security. Presentation of the current context in France: accounting systems for Central Government, Social Security and Regional and Local Government In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rules that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures. Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules. Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law. Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are	

R#	GENERAL COMMENTS	STAFF COMMENT
	partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers. Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this Viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints. The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence. <u>A issue to be taken into account: transparency of information</u> Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries. As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances. <u>The drawbacks of an approach based on a single model</u> While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it,* is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and lFRS standards.	

R#	GENERAL COMMENTS	STAFF COMMENT
	From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private. The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected. We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations. Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement. All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.	
028	In our view, the IPSASB must ensure that the elements and recognition criteria selected properly integrate with non-financial information, so that the objectives of financial reporting are adequately met. We think it is imperative that the debate about the asset and liability-led approach versus the revenue and expense-led approach does not detract from the importance of users being provided with the main information they need in general purpose financial reports. As currently expressed, we see a risk that one approach may be seen to better meet the	Acknowledged that assessing requirements relating to elements and recognition criteria in the context of the objectives proposed in Phase 1 is essential.

R#	GENERAL COMMENTS	STAFF COMMENT
	objectives of general purpose financial reporting than the other approach. We do not believe this to be the case. We think the objectives of accountability and decision-making should be unaffected by the approach the IPSASB finally decide to adopt.	
029	The Objectives of Financial Reporting In a letter to you covering the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Exposure Draft the province outlined its views that government financial statements are primarily for accountability purposes and the ability of the financial statements to support decision making is limited. The province also noted that the general public is the primary user and does not support the bifurcation of the users into recipients and resource providers. These comments are elaborated on in that letter and are repeated here as they apply in a general sense to all issues covered in this letter. It is unfortunate that the Consultation Paper does not discuss the existence and measurement of Capital and the related application of Capital Maintenance Principles at the beginning of this paper. In fact the paper does not mention these issues, beyond a short discussion of whether net assets/net liabilities constitute capital, but without discussion of what the impact on the conceptual framework would be if it is determined that government does not have capital or conversely if it does have capital then what basis of capital maintenance ought to apply. This would have a direct impact on the discussion of elements. This issue will be discussed more, in our comments on Part 5 of the paper, but briefly the province believes that government does not have capital and therefore capital maintenance principles do not apply. The Province supports the income and expenses-led approach which is consistent with the stated position in the Consultation Paper that government does not have capital. The cost basis of measurement is appropriate when there is no capital and therefore no basis for applying capital maintenance principles.	Staff considers that the financial statements should meet both accountability and decision-making purposes. Phase 3 (Agenda Item 4D.0) discusses the need for further discussion of Measurement objectives and Capital Maintenance concepts. Such discussion will have an impact on the development of Phase 2 proposals.
030	Australia currently uses a single set of Accounting Standards based on the IFRS, which apply to both the public and private sectors. HoTARAC recommends that when developing the conceptual framework, the IPSASB work closely with the International	See comments above on interaction with IASB.

R#	GENERAL COMMENTS	STAFF COMMENT
	Accounting Standards Board (IASB) and aim to create a uniform conceptual framework where the IPSASS considers issues from the perspective of the public sector. HoTARAC notes the IPSASS's comment on page 4 of the Consultation Paper that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, no reasons have been given as to why the International Accounting Standards Board's (IASB) conceptual framework is so fundamentally unsuitable for public sector entities, that development of a separate conceptual framework for such entities is warranted. HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework - particularly if alignment (to the degree possible) with IFRS is to remain an objective. HoTARAC's preference is that the IPSASB and IASB work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. Even if this would delay progress from an IPSASS perspective, HoTARAC believes such convergence would result in superior long-term outcomes for public sector entities globally. The greater the potential for divergence between pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of Government reporting entity. HoTARAC recommends that the IPSASB communicate to constituents how and when it will address this obvious tension between standard-setter frameworks under which various public sector entities might operate. On page 4 of the Consultation Paper, the IPSASB states it is considering the potential for convergence with the concepts underlying statistical financial reporting models in developing the Conceptual Framework. HoTARAC prefers that the focus instead be on the underlying conceptual merits for general purpose financial statements. However, should the IPSASB identify more than one approach as being suitable, HoTARAC would support selection of that basis that most closely aligns with the GFS statistical model. HoTARAC notes that the IPSASB's Conceptual Framework project is stated as applicable to general purpose financial reporting (which is a wider concept than general purpose financial statements). However, the IPSASB's Consultation Papers for Phases 2 and 3 of this project appear to more directly relate to general purpose financial statements. Further, in light of the IPSASB's arrangements for release of separate documents for each	The comment on potential for convergence with the statistical basis of accounting was not meant to indicate that the conceptual framework will seek convergence regardless of conceptual merits. Noted, see above. Intention is to publish Framework as a

R#	GENERAL COMMENTS	STAFF COMMENT
	phase of its Conceptual Framework project, HoTARAC would prefer more clarity about how the finalised Conceptual Framework documentation will be issued e.g. will it be issued as - • one inter-connected document with self-contained chapters for particular matters (e.g. elements and recognition, measurement etc); • one document setting out the over-arching principles - which HoTARAC presumes relates to Phase 1 - with separate documents that deal with specific aspects (e.g. elements and recognition, measurement etc) but which are all subject to the overarching principles; or • some other arrangement.	single document rather than separate components.
	Since some Conceptual Framework concepts (like measurement) could be applied beyond the boundaries of general purpose financial statements, HoTARAC recommends that the IPSASB clarify the application of all phases (particularly Phase 1) of its Conceptual Framework.	Currently Phase 1 and 4 adopt a 'more comprehensive' perspective, while Phases 2 and 3 are narrower in focus.
	HoTARAC strongly recommends that the IPSASB's Conceptual Framework (as the term implies) be restricted to high-level principles that are appropriate to reporting by the broad range of public sector entities. HoTARAC believes that issues relating to the practical application of those high-level principles only be dealt with in IPSASs.	Agreed
	HoTARAC also recommends that the IPSASB clearly communicate to constituents how and when the eventual outcomes of the IPSASB's conceptual framework project will be reflected in existing IPSASs, to ensure consistency across all IPSASB pronouncements.	Staff agree, To be discussed.
033	The conceptual framework for general purpose financial reporting by public sector entities considering the development of countries and jurisdictions, with different political systems, different forms of government and different institutional and administrative services. I agree with this proposal and I think that is very important this study.	Objective is to provide high level principles that are applicable to a wide range of jurisdictions and entities,
035	We wish begin by stating that only 4 elements are required in a Conceptual Framework for public sector accounting: 1. Assets; 2. Liabilities; 3. Revenues; and 4. Expenses.	View that deferrals of inflows and outflows are necessary, but that separate elements are not justified is noted. See Memorandum paragraphs 93-96.

R#	GENERAL COMMENTS	STAFF COMMENT
	The Consultation Paper discusses other possible elements such as deferred outflows and inflows and ownership or equity interests. The Conceptual Framework should allow for the deferral of cash outflows and inflows. This would better align financial reporting with the objective of determining whether resources were managed within approved budgets. However deferred outflows and inflows should only be allowed on the statement of financial position if they meet the characteristics of a liability or asset. The concepts of ownership and equity interests are inappropriate for a Conceptual Framework for public sector accounting. We are of the view that any net asset position simply represents resources that can be used to provide services to the general public in the next accounting period. A net liability position represents the requirement to raise additional net revenues for past operations in future accounting periods.	Noted, see paragraphs 141-144.

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ALL THE ABOVE TYPES OF BENEFIT	**17 (51%)**
(B) ONLY SOME OF THE ABOVE TYPES OF BENEFIT	**15 (46%)**
(C) NONE OF THE ABOVE	**-**
(D) NO CLEAR VIEW EXPRESSED	**1 (3%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**33 (100%)**
(E) DID NOT COMMENT	**2**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
001	A	ACAG supports the definition of an asset including all of the above benefits. As identified in the ACAG conceptual model, assets can contribute to a Government's operations in a variety of forms. Some assets may be held for service delivery purposes and meet future service potential needs. Other assets may be available to satisfy the entities' liabilities or be available to purchase further service delivery assets. What is important, from ACAG's view, is to clearly distinguish between those assets that are held to provide cash inflows, and those that are dedicated to service delivery.	Staff considers that this is primarily a presentation issue.
002	A	The definition of an asset should be broad enough to include items that provide any of the above types of economic benefits. However, it is not these benefits themselves that form the present asset that is reported in the GPFS, and not all prospects of future benefits are assets at the reporting date. As noted in our response to SMC 2, in our view an asset should be defined in terms of rights to future economic benefits. It is important that it is clear that 'net cash inflows' should include a saving of future cash outflows. This is particularly important where assets are employed in the provision of services for which no fee, or a fee less than cost is charged.	This view and its relationship with service potential should be further considered.
003	A	The definition of an asset should cover all the concepts expressed in points (i), (ii) and (iii). Regarding point (iii), *Unconditional rights to receive resources*, **if and only if they are specified in the contract**.	

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		For example, privatizations where the contract states an investment program, it should be considered a debt for the privatized company and an asset for the appropriate Government Sector. Economic benefits and service potential should be used in the definition of an asset(i).(Paragraph Reference 2.13) Understanding that the "service potential" is precisely one of the factors that distinguish us from the Public Sector, as the Public Sector operations' main goal is to provide services and a need for assets to deliver such services, and for that reason it may not be included in the term economic benefits Paragraph Reference 2.24)	Staff assume that the wording should be ".. distinguish us from the Private Sector.. "?
004	A	NAO is of the opinion that the definition of an asset should cover all of the above benefits – those in the form of service potential, net cash inflows and unconditional rights to receive resources. This is due to the fact that ownership of the asset will lead to the provision of goods and services of a particular volume (service potential) and the generation of future economic benefits such as net cash inflows and unconditional rights to receive resources.	Noted, see paragraphs 25-30.
005	B	For governments, which represent socio-economic entities, assets are held primarily to delivery services, so the service potential of assets should be the primary benefit consideration. As policies change and resources are redeployed, governments may have some assets that may not be intended to support service capacity or policy implementation and reference to net cash inflows may occasionally be appropriate as net cash inflows represent the assets service potential to deliver services, such as when a government approves a decision to liquidate surplus assets at a time that the market value is less than the carrying value. We do not believe that service potential and net cash inflows can be used interchangeably, and that continuing to reference net cash inflows in reference to public sector assets held for delivering services will perpetuate risk of misinterpretation in application of the framework to the public sector, such as when an asset has no value commercially but supports a public service delivery objective. Further clarification is required on the third consideration noted above (unconditional right to receive resources). Where such rights have been paid for, recognition is likely supported; however, where such rights are associated with an obligation by the entity to transfer economic resources to the supplier in the future, neither the asset nor the liability are generally reported (2.21). There is a concern that the concept of unconditional rights could be interpreted so broadly that crown lands, forests, water and mineral rights, etc., could require recognition in general purpose financial statements. Ontario would not support such recognition as it does not align with the purpose and user needs for GPFS to understand the inflows of resources available and outflows of resources consumed.	Noted, see paragraphs 25-30. This may need to be clarified. Referred to in Memorandum, paragraph 26.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		In addition, we feel the definition of an asset is also dependent on recognition. When related to GPFS, we do not see a benefit of recognizing an asset as an element if it is determined that it does not meet the recognition criteria. The definition of an asset element should combine both the nature of the benefit and the recognition criteria. We feel that separating the recognition from the element definition may create too much confusion in trying to use the conceptual framework.	
006	B	The unconditional rights to receive resources in the future should not be included as a benefit. Those rights could be accounted for in a sustainability report but not in the financial statements.	Noted. Projected inflows may be suitable for long-term fiscal sustainability report provided basis of assumptions and methodologies are disclosed.
007	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…..'	This definition may be too broad for the public sector – see, for example, comment from Respondent 5 above.
008	B	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	Framework-CP2 did not contain preliminary views and did not propose types of benefits. The strong preference for service potential and the view that extending economic benefits to unconditional rights might lead to recognition of a wide range of items is noted.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		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.	
009	B	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.	See Memorandum, paragraphs 25-30.
010	B	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.	See Memorandum, paragraphs 25-30.
011	A	We agree that the definition of an asset should cover the types of benefit listed in specific matter for comment 1.	See Memorandum, paragraphs 25-30.
012	A	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.	Noted, in particular that term "unconditional rights" may need clarification.
013	A	All of these should be recognised.	
014	B	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.	If included in the Exposure Draft definition of an asset, unconditional rights to receive resources will need to be explained further.
015	B	We support a broad definition of an asset. Therefore the definition of an asset should cover "service potential" and "net cash inflows". We feel that the definition of an asset should not cover "unconditional rights to receive resources" because of the difficulty of defining this concept. However we acknowledge that information about material "unconditional rights to receive resources" may be relevant for users. Against this background we would recommend a disclosure in the notes.	See Memorandum, paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
016	E	*Did not comment on this SMC.*	
017	A	All of these should be recognized.	Noted
018	A	The Joint Accounting Bodies support the definition of an asset that covers all three types of benefits listed above.	Noted
019	B	Agree on (i) and (ii). With regard to (iii) unconditional rights to receive resources – although the proposed concept is explained clearly, it is not clear how an asset which constitutes an unconditional right to receive resources would be measured and presented by preparers of GPFSs. Is it practical (from a cost/benefit perspective) or even possible to establish fair value of an unconditional right to receive resources? The example used in para. 2.20 refers to contracts with an insurance company to unconditionally receive protection against losses incurred by fire damage for the next two years. First, it is not possible to predict with a required degree of certainty whether a reporting entity would suffer fire damage in the next two years. Thus this benefit may never materialize. If, however, fire damage should occur within the defined period, it would not be possible to predict the monetary value of the damage before it happens. Additionally, GPFSs of a reporting entity are prepared on going concern basis and not on the assumption that a significant part of the operations might be damaged. It is an operational risk which is mitigated by devising a contingency plan. In this case, should fire damage occur in the future impacting a certain value of an entity's property, an insurer will compensate losses in full to restore/replace the property to its pre-fire condition; the net economic effect of these events is nil. The Task Force requests that the concept be further clarified, should IPSASB wish to continue to consider an unconditional right to receive resources as a benefit to be used in defining an asset.	Noted. An asset may exist, but not be measurable, see for example the views of Respondent 25 in General Comments.
020	B	As defined in the CP, service potential and net cash inflows are relevant to the definition of an asset. However, in developing standards at the level of specific elements one aspect may be more relevant. Net cash inflows are integral to the substance of financial assets such as amounts receivable, investments, and advances. However, for non-financial assets such as capital assets and inventory service potential is the most relevant aspect. Governments are socio-economic entities focused on providing services to the public, therefore the service potential of assets should be the primary consideration for the definition of a capital asset with reference to net cash inflows only when appropriate in cases where a capital asset is used directly in a cash generating activity. Net cash inflows may be more appropriate in a profit generating environment than in a government context to value non-financial assets.	Noted, see paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		We also believe that additional clarification is required with respect to including unconditional rights to receive resources as part of the definition of an asset. In situations where these rights have been purchased by a government, there is likely support for recognition as an asset; however, we are concerned that introducing this concept may be interpreted broadly to include items such as Crown lands, forest and water rights, and other natural resources, all of which are currently not recorded as assets by governments. We would also point out the significant effort and judgment that would be required to measure these types of assets in countries such as Canada.	
021	A	In relation to question 1(a) we support a definition of an asset that covers all three types of benefits listed.	Noted.
022	A	An asset relates to service potential, net cash inflows/outflows, rights to receive resources or economic benefits. I agree.	Noted.
023	B	Yes. But for unconditional rights to receive resources, it would seem most appropriate to only include those cases where the entity has paid for the unconditional promise or the rights develop an acknowledged market value while being held. When the unconditional promise to receive benefits is coupled with an equal unconditional promise to transfer economic resources to the supplier in the future, neither the asset nor the liability aspects of such executory contracts should be recognized. Consider an unperformed executory contract to purchase a fire truck. Neither the fire truck nor the obligation to pay for the fire truck would be recognized. However, the executory contract itself might have value and that value may change before the contract is performed. The value of such a contract may have changed since the contract was signed – much liked a derivative contract, and it may be appropriate to recognize such value changes. Once a choice has been made to recognize such value changes for derivatives, then conceptually, it is difficult to exclude them for other contracts. However, we recognize that there are practical difficulties in applying such a concept to many executory contracts. In contrast to derivatives, there may not be an active market for such contracts so monitoring and recognizing value changes may be difficult and costly. And, there is typically less variability associated with such contracts, so the information that would come from re-measuring these contracts at each financial reporting period may not be that meaningful.	Executory contracts in the context of both assets and liabilities may need to be considered in greater depth.
024	A	We are comfortable with including all 3 types of benefits: service potential, net cash inflows, and unconditional rights to receive resources. However, there is need for further clarification about "unconditional rights to receive resources".	Noted.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
025	A	The AASB supports a definition of an asset that covers all three types of benefits listed in Specific Matter for Comment 1(a). The AASB observes that these types of benefits are not mutually exclusive. Assets held by not-for-profit entities to provide services (and which are explained in paragraph 2.16 as possessing 'service potential') would generally also be held to generate net cash inflows, either directly through user charges (as noted in paragraph 2.19) or indirectly in the form of transfers from government and/or taxes. Sometimes a cash inflow may be in the form of an explicit subsidy of the cost of services provided, or implicit in the raising of revenue at an entity-wide level (for example, in the form of some taxes). The fact that some net cash inflows are more difficult than others to relate to particular assets does not necessarily mean the assets are not cash-generating. The AASB observes that unconditional rights to receive resources embody service potential and a capacity to generate net cash inflows, as they will be converted into other assets also possessing those benefits or attributes.	Noted, particularly view that assets with service potential may also generate cash flows.
026	B	The DGFiP considers that the definition of an asset covers both types of following benefits : service potential and net cash inflows that it generates. Indeed, service potential is necessary but not sufficient to cover the definition of an asset, in particular for its value. According to the DGFiP, the term of unconditional rights to receive resources sends back to the definition of a financial asset such as defined in § 11 c) of the standard IAS 32 "Financial instruments: presentation" : *"A financial asset is any asset that is (..) a contractual right:* *(i) to receive cash or another financial asset from another entity; or* *(ii)to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity (…)".* This element thus seems too specific in financial assets to define an asset in a general way.	Referred to in Memorandum, paragraph 26.
027	B	From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions...), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation. Equally cf. answer to Question No.4.	It may be possible for an item to meet the asset definition, but for it not to be measurable.
028	A	In our view, the definition of an asset should cover service potential, net cash inflows and	Noted, see paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		unconditional rights to receive resources.	
029	E	*Did not comment on this SMC.*	
030	A	HoTARAC believes an asset should be defined in terms of "economic benefits", which would encompass all of the three types of benefits.	Noted, see paragraphs 25-30.
031	B	We question whether "unconditional rights to receive resources" are benefits of an asset. We would contend that unconditional rights are a way in which economic benefits and/or service potential arise. The section on liabilities indicates the following: • Liabilities are noted as arising from "obligations". A similar notion has not been reflected in the discussion on assets. In developing the definitions of assets and liabilities, it should be considered whether symmetry in these definitions is important. For example, liabilities are "obligations" to transfer economic benefits or service potential; similarly, assets should be "rights" to receive economic benefits or service potential. These rights can arise from ownership rights, contractual rights and rights arising from legislation. • "Social benefits" are seen as an unconditional obligation. Similarly, the opposite may be true for the right to tax. We would therefore suggest that the right to tax be explored as an unconditional right in the subsequent phases of the project. • It is noted that liabilities can arise from a variety of obligations (specific matter for comment 6). It is questioned whether the opposite side of these transactions should be considered from an asset perspective. For example, how or could an asset arise for an entity that is the counterparty to a transaction that gives rise to a performance obligation? These types of arrangements are prevalent when transfers are made from one level of government to another.	The view that unconditional rights in the context of assets parallels obligations in the context of liabilities should be considered as Phase 2 progresses.
032	B	We agree with that the definition of an asset should include benefits in the form of service potential. However, we also believe that the definition of an asset should be determined with reference to the objectives of financial reporting by public sector entities. According to Conceptual Framework Exposure Draft 1, the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes. In order to discuss the definition of assets with reference to the objectives of financial reporting by public sector entities, we believe that it is necessary to make it clear whether public sector entities present benefits sufficient to provide public services to citizens at the reporting date or public sector entities are capable to continue to maintain benefits sufficient to provide public services to citizens in the future.	This consideration was a major factor in the decision to initiate the project on the long-term sustainability of the public finances.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		The above clarification is required because the definition of "service potential" affects determination of the basis of asset measurement. In other words, if "service potential" is focused on the benefits to provide public services to citizens at the reporting date, we believe that it is consistent to measure the assets based on historical costs. On the other hand, if "service potential" is focused on benefits that should be maintained to provide public services to citizens in the future, we believe that it is consistent to measure the assets by using present values.	Measurement is the focus of Phase 3.
033	D	In this Draft, item 2.2, described that "Assets of a government or other public sector entity are a key element of the entity's financial position. The recipients of goods and services and providers of resources (financial statement users) are interested in assessing whether the entity's assets are managed efficiently and effectively in providing public goods and services. Asset definition and recognition therefore also play an important role in reporting on financial performance. Users seek to understand the effects of decisions to retain, use, or sell the entity's resources on current and future resources available to provide public goods and services." I think that definition will be related with structure defined for ICAEW (2011, 22) because the use or not the information about point 2.13 – 2.22 (i) Service potential; (ii) Net cash inflows; and (iii) Unconditional rights to receive resources. I don´t know if have impact about what´s to register in the financial reporting, as described in the point 2.3 and 2.4 about the substance of an asset; How to determine if it is an asset of the reporting entity; and How to determine if it is an asset at the reporting date, these aspects is related in the use of activities and applicability of transparency and clarified for due process.	
034	B	The definition should cover service potential and net cash inflows. The context for inclusion should be that an asset should have "one and/ or the other" benefit. It is not necessary for an asset to have both. Nova Scotia further feels it is not necessary to go the additional step to include "unconditional rights to receive resources". This opens the door for items that we feel would not be appropriate, largely intangible assets (i.e. capital the future value of all taxation revenue – in the extreme, or capital royalty revenue from a natural resource, renewable or not, that may fluctuate significantly).	Agreed. Important to note that an item may meet the definition of an asset, but may not be measurable.
035	A	Assets should have **all three** essential characteristics: 1. Embody a future benefit that allows a government to generate future net cash flows or provide goods and services; 2. The government can control access to the benefit or restrict access to others; and	Noted.

R#	CATE-GORY	COMMENTS ON SMC 1(a)	STAFF COMMENT
		3. A transaction or event giving rise to government's control of the benefit has already occurred. Assets are economic benefits that either have service potential or generate net cash flows. The definition of a benefit should also include the unconditional right to receive resources in the future. Protection against losses through insurance coverage would be an example of an unconditional right to receive resources in the future. This however should not include contracts for the future delivery of goods and services at a specified price. This does not represent an unconditional right to receive resources in the future since the government would also has an equal unconditional promise to deliver economic resources in the future. If the public entity has negotiated a favorable price for the future delivery of goods and services then the entity's prudent management of its resources will be evident when it provides the services to the public.	

SMC 1 (b): What term should be used in the definition of an asset

(i) Economic benefits and service potential; or

(ii) Economic benefits?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) BOTH ECONOMIC BENEFITS & SERVICE POTENTIAL	**20 (67%)**
(B) JUST ECONOMIC BENEFITS	**6 (20%)**
(C) NEITHER	**-**
(D) NO CLEAR VIEW EXPRESSED	**4 (13%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30 (100%)**
(E) DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
001	A	ACAG agrees with the argument that Government assets are often deployed to provide services rather than obtain economic benefits (as outlined in Paragraph 2.24). Therefore, ACAG supports option (i) with service potential being separately identified.	Noted, see Memorandum, paragraphs 25-30.
002	B	As stated above, it is important that the definition of an asset should include items that provide service potential as one type of economic benefit. It is questionable, however, whether it is necessary or appropriate that the definition specifically refer to 'service potential'. We do not believe that the existence of assets that provide only service potential is a distinguishing feature of the public sector: commercial entities often hold assets that do not directly contribute to the receipt of cash inflows.	Noted, see Memorandum, paragraphs 25-30.
003	A	What should be included is: "The economic benefits and the service potential" If in the economic benefits not only the fund flows are considered, but also the unconditional rights to receive the resources stated in the contracts.	Preference for inclusion of both service potential and economic benefits noted. Noted, see Memorandum paragraphs 25-30.
004	A	NAO opines that the term used to describe the definition of an asset should be economic benefits and service potential since many government assets are employed to provide services and not derive an economic benefit. Since the provision of services is important to government, service potential should be distinguished separately.	Preference for inclusion of both service potential and economic benefits noted. Noted, see Memorandum paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
005	D	Economic benefits are commonly associated with the net cash inflows, and are a term more relevant to the private sector looking for a return on investment. This term does not represent the ultimate use of government assets which are generally used to provide social services. Therefore, the definition of asset should focus on service potential and incorporate economic benefits only under limited circumstances such as assets not held for their service potential, but for their cash flow, like temporary investments held for sale. Ontario believes that service potential is a characteristic on its own and not a component of economic benefits. In a public sector context, to fairly represent the nature of the assets, the emphasis needs to be on service potential. Since public sector assets are often only of optimal value when used to deliver the unique services of government, the only way to value service potential reliably is based on cost. This is another example where it is important for the IPSASB conceptual framework to clearly and consistently reflect the unique nature of the public sector vs. the private sector.	Preference for identification of service potential noted. Noted, see Memorandum paragraphs 25-30. Measurement is a Phase 3 issue.
006	A	In our opinion the definition of an asset should include both economic benefits and service potential. Many of the assets within the public sector do not generate net cash inflow and therefore we believe it is appropriate to use service potential in the definition. We however have experienced that it sometimes is difficult to distinguish between when a transaction or event should be accounted for as an asset or as expenditure in the current operation. The definition of service potential should be more constrained than to provide goods and services in accordance with the entity´s objectives. We however have not developed a wording for a new definition.	Noted.
007	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.	Preference for term 'economic resource' noted.
008	E	*Did not comment on this SMC.*	
009	A	Term "Economic benefit and Service potential" should be preferred because use of term "The Economic Benefit" may create some ambiguity.	Noted, see paragraphs 25-30.
010	E	*Did not comment on this SMC.*	
011	A	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	Noted, see paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
		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.	
012	A	Both expressions – "*Economic benefits*" and "*Service potential"* – should be used.	Noted, see paragraphs 25-30.
013	A	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).	Noted, in particular comments on public sector resonance. See paragraphs 25-30
014	A	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, and appears at this stage to be justified.	Noted, see paragraphs 25-30

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
015	A	The term that we would like to see in the definition of an asset is "economic benefits and service potential". We believe that this illustrates the differences between public sector accounting and private sector accounting the best.	Noted, see paragraphs 25-30 of Memorandum.
016	E	*Did not comment on this SMC.*	
017	A	While we accept that the term 'Economic Benefits' can be taken to encompass wider considerations such as the benefit provided by public services, we suggest that Option (i) is the clearest and most helpful formulation for the Framework, particularly as it avoids confusion with the narrow usage of economic benefits by the IASB, where it is considered purely in terms of profit seeking activities. That said we do consider that service potential can be measured by reference to economic benefit even in the narrow sense, having regard to expenditures which would be made to provide the equivalent service.	Noted, see paragraphs 25-30 of Memorandum.
018	B	The Joint Accounting Bodies believe that economic benefits or service potential is the essence of assets - an approach that was articulated in SAC 4 *Definition and Recognition of the Elements of Financial Statements* in pre-IFRS Australian GAAP. We consider economic benefits as synonymous with the notion of service potential. In pursuing their objectives, both public sector not-for-profit entities and profit seeking entities provide goods and services that have the capacity to satisfy human wants and needs. Both types of entity create utility and value in essentially the same way - by using assets to provide goods and services that their customers or beneficiaries desire or need. Thus, assets provide a means for entities to achieve their objectives and in the case of the public sector, that objective might only sometimes give rise to net cash inflows. While we do not differentiate economic benefits from service potential, as noted in paragraph 2.23 of the CF CP Elements and Recognition other commentators like to. We are agreeable to the use of either approach. The critical issue is that the notion of service potential is included in the Framework and that if option b(ii) is used, their synonymous nature is articulated. Irrespective of the final approach, a discussion of assets in the finalised Framework should highlight that the multiple objectives of public sector entities may result in their holding assets to use to either deliver goods and services in accordance with the entity's objectives, or to generate net cash inflows.	Noted.
019	A	The Task Force observes that, according to para. 2.13 of the Consultation Paper, service potential is defined as a type of economic benefit, hence above proposed option (i) appears to be inconsistent and repetitive within the framework of the Consultation Paper. However, we acknowledge that historically the term 'economic benefit' was associated with profit-oriented reporting entities. In this regard, extension of the definition of an asset to include reference to	Noted view that use of 'service potential' might help to distinguish a public sector definition.

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
		service potential will be useful in setting public sector definition of asset apart from commercial sector's counterparts. The Task Force supports option (i) and suggests that the language could be revised to address above mentioned inconsistency upon progressing of the Consultation Paper to draft Exposure Draft.	
020	A	Economic benefits and service potential should be used in the definition of an asset. We would not support focussing the definition of an asset exclusively on economic benefits as, in particular for non-financial assets, this does not reflect the environment in which a public sector entity operates.	Noted, see Memorandum, paragraphs 25-30
021	B	In relation to question 1(b) we consider that either approach could be used but prefer approach (ii). The critical issue is that the notion of service potential as an asset is included in the Framework. This can be achieved under both options (b)(i) and (b)(ii). In the case of option (ii) it could be achieved by stating in the Framework that the term economic benefits is to be read as having the same meaning as service potential or by using the argument that service potential is a subset of economic benefits (as per the argument set out in paragraph 2.24 of the Consultation Paper (CP)). Regardless of which approach is taken we consider that the discussion of assets in the proposed Framework should highlight that public sector entities may hold assets because of their ability to deliver goods and services in accordance with the entity's objectives, or to generate net cash inflows.	Noted, see Memorandum, paragraphs 25-30.
022	D	Also, public infrastructure like roads, tunnels, bridges etc. have a clearly definable connection to economic well being because without these public assets- economic activity could never commence in any meaningful form.	
023	B	"Economic benefits" alone should be used. This term encompasses the concepts of both future net cash flow and future service potential. The benefit of future service potential is economic in nature as described in CF-CP2. The two concepts don't need to be articulated separately. In cases where they have historically been set out separately, it is likely that the framework was an adaptation of a private sector framework and the public sector nuances were more in the nature of add-ons so that the differences and changes were apparent. In a purely public sector framework, it can be recognized that net cash flows and future service potential are both types of economic benefits and only the term "economic benefits" can be used to encompass both.	Referred to in Memorandum, paragraph 29.
024	A	To be all inclusive, we prefer the term "economic benefits and service potential".	Noted, see Memorandum, paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
025	B	In relation to Specific Matter for Comment 1(b), the AASB would prefer using the term 'economic benefits' in the definition of an asset, with clarifying guidance that service potential is a sub-set of economic benefits.	Noted view that 'economic benefits; encompasses 'service potential'.
026	A	For the fore-mentioned reasons, it is more advisable to use the terms « economic benefits **and** service potential" to define an asset. For example, the French central government recorded the frequency spectrum, nevertheless pre-existent, only when that was revealed by the existence of license agreements granted to private operators, who gave rise to payment of royalties.	Noted example giving rise to cash inflows.
027	A	Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.	Noted, see Memorandum, paragraphs 25-30.
028	A	In our view, it is important that the term used in the definition of an asset is economic benefits and service potential, because many assets in the public sector do not generate economic benefits for the public sector entity that holds them. Rather, the assets are held by the public sector entity to provide essential services to the public.	Noted, see Memorandum, paragraphs 25-30
029	E	*Did not comment on this SMC.*	
030	A	HoTARAC considers that the concept of service potential is critical to the public sector and should be included in the Framework. HoTARAC believes that whether 'service potential' is incorporated into the definition separately, or as a subset of economic benefits, is only a matter of terminology. As long as the definitions are clear, it is not an issue of significant importance in our view. HoTARAC supports an asset being defined in terms of 'economic benefits', provided that the concept of economic benefits include the notion of service potential, net cash inflows, and unconditional rights to receive resources. Specifically including the concepts of service potential and the resource being useful to achieve an entity's objective(s) are important as they capture situations specific to the public sector and provide relevant information in the public sector context. Accordingly, HoTARAC suggests that the definition for an asset be framed as follows: "assets are resources that provide future economic benefits that are useful to achieve the entity's objective(s)". In relation to the terminology for the definition of an asset, HoTARAC supports the view that	Noted, see Memorandum, paragraphs 25-30.

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
		'service potential' can be viewed as an economic benefit to a public sector entity and therefore can be included as a subset of economic benefits. There are two arguments to support this view. Firstly, "service potential" is by definition something of value to an entity, which as noted in paragraph 2.12, is also the definitional characteristic of an "economic resource". Secondly, acquisition of "service potential" will often require the sacrifice of other economic resources. Therefore, access to service potential is an economic benefit as it reduces the need for an entity to forego economic resources. What is considered more important is clarity around the definition of "service potential" as there are several contradictory notions within the document of service potential and its relationship with cash flows. A single definition of service potential that either clearly includes or excludes cash flows would be helpful. This will also in turn influence whether the definition substance of an asset needs to specifically identify net cash inflows as a separate component.	This may need to be considered in drafting the ED.
031	A	The definition of an asset should cover both service potential and net cash inflows. To reinforce the consideration of both service potential and net cash inflows in identifying assets, it is proposed that the term "economic benefit and service potential" should be used.	Noted, see Memorandum, paragraphs 25-30.
032	E	*Did not comment on this SMC.*	
033	D	The economic benefits described as "These benefits are sometimes described as "economic," but use of this term can be problematic. If by "economic" the notion of scarcity is conveyed, then the term is more likely to be appropriate. However, if by "economic" the notion of profitability or cash benefit is conveyed, then the term is not likely to be useful in the public sector context. This use of the term fails to encompass non-cash generating resources that are nonetheless critical to a faithful representation of the operating capacity of public sector entities" point 2.8 of Exposure Draft. I think that non appropriate for used in the definition for assets, are different, the principal point will be defined and your structure cannot be for used for FASAB for accounting for the net	

R#	CATE-GORY	COMMENTS ON SMC 1(b)	STAFF COMMENT
		position of a federal entity. I have doubt about this definition I observed that will be similar for aspects integrated that the government and nonprofit entities used in practice, if have some problems I suggest makes consulting in the others regulators for government.	
034	D	In Nova Scotia's view, it is critically important that service potential be included. The definition should not require economic benefits because that concept implies cash flow. Many assets of a government may not directly lead to economic benefits but will provide future service potential (i.e. construction of roads, hospitals and schools where there may be no direct cash flow from the asset but service potential is safeguarded with the existence of the asset).	Noted. Not fully clear whether respondent would omit 'economic benefits' completely or refer to both 'economic benefits' and 'service potential'
035	A	Assets are economic benefits that either have service potential or generate net cash flows.	Noted, see Memorandum, paragraphs 25-30

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) CONTROL	**14 (43%)**
(B) RISKS AND REWARDS	**2 (6%)**
(C) ACCESS TO RIGHTS	**4 (12%)**
(D) A COMBINATION	**12 (36%)**
(E) NO CLEAR VIEW EXPRESSED	**1 (3%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**33 (100%)**
(F) DID NOT COMMENT	**2**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
001	B	ACAG prefers a risks and rewards approach for identifying an entity's assets. The notion of control often results in entities recognising assets due to physical control, even though the majority of risks and rewards have been assigned to another party.	Noted. See Memorandum, paragraphs 31-35.
002	C	The ASB's Statement of Principles for Financial Reporting defines assets as 'rights or other access to future economic benefits controlled by an entity as a result of past transactions or events'. Our experience has shown that the focus on rights, rather than resources, is valuable. A definition in terms of 'resources controlled by an entity' can create the misleading impression that once a resource has been identified, the accounting issue is to determine the entity of which that resource is an asset. This sort of confusion is evidenced by the example in paragraph 2.36 of the Consultation Paper, It is correct to observe that the fiber optic cable is not the entity's asset, but the entity may have a right to use the cable, which is an asset. (We note that this discusses the use of the notion of 'right' to establish a link to the asset; in contrast, we are suggesting that it is the right itself that is the asset). Confusions of this kind have arisen in the course of IASB's work on leasing and on Service Concession Arrangements. A definition based on the notion of a resource can also be confusing where the potential asset is, itself, simply a right, for example, where an entity holds an option. We do however recognise that the approaches proposed do overlap and that control and rights are directly linked to the risks and rewards associated with having an asset.	Noted. See Memorandum, paragraphs 31-35.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
003	C	(iii) Access to the rights, including the right to restrict or deny access to others' rights.(Paragraph Reference 2.26) Natural Resources are government-managed public assets of public domain, but they belong to all the citizens living in the national territory. So, for better management, the government will be able to obtain resources from them, either pass permits or royalties for the exploitation that will be considered government revenues over a public domain asset, that is a citizen-owned asset; on the other hand, such assets have a series of restrictions that the government private domain assets do not possess. (Paragraph Reference 2.38) Actually, all the assets, both of public and private domain, belong to the citizens of a country and the government is their administrator, so we understand that the Natural Resources should be part of a government's assets, the government being their administrator, which generate revenue or not, in which case they are Exploited Natural Resources and such assets constraints should be specified. (Paragraph Reference 2.38) An asset must be associated with an entity when: (i) You hold legal title of it; or (ii) The risks and benefits are assumed; or (iii) You have formal rights over them (contracts). What should not be considered: • Control or • The rights to restrict or deny access to others' rights.	Noted.
004	C	NAO is of the opinion that the access to rights approach, including the right to restrict or deny others' access to rights, is to be used to associate an asset with a specific entity. If such right of access exists, the entity can determine how to use the benefits embodied in the resource.	Noted. See Memorandum, paragraphs 31-35.
005	A	We believe that the control approach is most closely aligned with the Public Sector Accounting Board's (PSAB) current definition and is the most appropriate basis upon which to associate an asset with a specific entity. In particular, PSAB defines assets as: "… economic resources controlled by a government as a result of past transactions or events and from which future economic benefits *are expected to be obtained*". However, the risks and rewards approach (economic ownership) focuses on the government's exposure to the underlying economic attributes of a resource. By definition, if a government has the power and access to direct how the resource is used (i.e. the control approach), the government inherently is exposed to the underlying risks and rewards associated with the	Noted. See Memorandum, paragraphs 31-35.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		ownership of the resource. As well, the access to the rights to benefit from the resource is also embedded in the control approach. If a government controls a resource, it can determine the nature and manner for the use of the benefits embodied in the resource. Due to the nature of governments, access may exist but must be considered in relationship to intent (policy decisions) whether it reflects the accountability the government has to the public. Thus, the control approach, the risks and rewards approach, and the access to rights approach are not mutually exclusive. For example, in Ontario, the measurement of control is used when assessing service concessions. However, we have determined that there would not be a change in treatment if we had used risks and rewards as directed by the IPSASB Service Concessions standards All methods have limitations when it comes to addressing natural resources and crown lands. The government manages items such as crown lands or water rights on behalf of the public. However, this situation clearly shows how option (iii), access to rights, could incorrectly encompass assets that governments regulate and protect are not appropriate in GPFS as assets, as they are not resources for the government to consume in the delivery of services.	IPSASB has not proposed the risks and rewards approach for service concession arrangements. This will need to be clarified.
006	A	In our opinion control is the main approach to associate an asset with a specific entity. Sometimes control could be a too restrained criterion. We consider that the access to the rights of an asset could be a criterion for the definition of an asset. In the Swedish central government we have some jointly controlled assets with e.g. other countries within the European Union. Those are disclosed in the Statement of Financial Position as assets even if we do not have "control" of the asset, but according to the agreement we have access to the rights of the asset. In notes the entity should disclose the content of the agreement.	Accounting treatment might be explored. Is the carrying value apportioned among the countries, either equally or in proportion to the amount invested?
007	C	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'.	Noted view on likely line of travel of IASB. Staff does not necessarily think that this should dictate IPSASB approach.
008	F	*Did not comment on this SMC.*	
009	B	The Risk and Rewards approach is more appropriate to associate an asset with a specific entity.	Noted. See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
			paragraphs 31-35.
010	D	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.	Noted. See Memorandum, paragraphs 31-35.
011	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.	Staff acknowledges the proposed control approach in ED 43, but does not think that this should necessarily dictate the approach in the Conceptual Framework.
012	D	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.	
013	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).	Practical difficulties in evaluating risks and rewards in public sector are acknowledged. This may need to be clarified.
014	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:	Staff notes view that an evaluation of risks and rewards may provide an

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		- 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.	indication of control.
015	D	There is no clear delimitation between the theoretical approaches. Therefore it is difficult to make a distinction between the approaches in practical implementation. Given the fact that private sector standard setters are considering moving away from the use of the term "control" in determining rights to benefit, we suggest monitoring the current developments. We do not see any public sector specific reasons that justify a deviation from private sector developments.	Noted views on evolving approach of IASB.
016	D	The consultation paper discusses different approaches how to link assets and liabilities to the accounting entity and discusses a number of different approaches how to determine whether an asset or a liability can be said to belong to the accounting entity: 1. The accounting entity has control of the asset/liability 2. The accounting entity has the economic ownership and thus has the access to benefits but also derives risks of the asset 3. The accounting entity can restrict or deny the ownership of the asset for others The term accounting entity is not a unique term and the definition of an asset/liability must therefore vary depending on whether you are preparing an institutional account, a ministry statement or a balance of the entire state. In preparing the Danish government accounts there is a number of different assets and liabilities which do not appear in each institution's balance sheet, for example, the total state overviews of loans and long term receivables, securities and capital deposits, guarantees etc.	Referred to in Memorandum, paragraph 32.
017	A	On balance, while none of the proposed bases are without drawbacks, 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;	Should "control" be used, it may have to be defined more clearly.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		− exposure or rights to variable outcomes arising from the asset; − control over the asset or the service delivery capacity of the asset. While even in the private sector there is debate over which base should be used, the bases are 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.	
018	A	The Joint Accounting Bodies consider control is an essential feature of an asset. We note that any discussion of approaches focuses people's attention on questions such as 'which asset?' - 'rights of use', 'rights of access', 'future rights to acquire', 'future rights to use', 'future rights to sell', 'rights to ownership of the underlying asset', and 'ownership of the underlying asset'. While we support an approach that includes access to rights, including the right to restrict or deny others' access to rights, we think in important that the Framework address the question of which asset (i.e., the unit of account issue). We note that an approach based on risks and rewards has been used in some jurisdictions. Further, some commentators consider risks and rewards as a component of control and/or access to rights, and hence should be an input into the determination of control or access to rights. We suggest that the Framework include a discussion or risks and rewards that gives clarity to the distinction or interrelationship between the approaches of control and access to rights and the risks and rewards approach.	Noted , esp. view that unit of account issue should be discussed.
019	D	The Task Force views each of the proposed approaches to be suitable, independently or in combination, to trigger the assessment of association of an asset with a specific entity. However, considering limitations of each approach, presence of one or a combination of these factors can not be solely relied on to determine association of an asset with a specific entity. In relation to (i) and (ii), if an asset is shared between reporting entities (legally or in substance), while one entity has 'control' over the shared asset, other(s) may in substance have access to majority of rewards and risks related to it. In relation to (iii), if an asset is co-owned, then more than one reporting entity might have the right to restrict or deny access to rights over the asset to parties which are external to the co-ownership arrangement. The Task Force recommends that the IPSAS Board expand its discussion of practical application of these approaches in operational scenarios which may result in associating an asset with more than one entity if above proposed approach is followed.	Preference for operational examples is noted.
020	A	We believe that a control-based approach should be used in the context of public sector assets as it encompasses an entity's ability to control access to the service potential of its resources in order to deliver services to the public. We also believe that the control focus incorporates certain	Noted view that control and risks and rewards are not mutually exclusive and that

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		aspects of the risks and rewards approach, since through control, a government will be inherently exposed to the risks and rewards associated with the economic ownership of its assets. Further, an exclusive focus on risks and rewards would shift the analysis to a government's exposure to the underlying economic attributes of a resource. This approach would be better applied when assets are based on economic benefits rather than on service potential. A risks and rewards approach would also require significant judgment to assess the relative risks and rewards making it challenging to apply in practice. We believe that a control approach is less complex to apply, is consistent with assessing the service potential of a government's resource, and also implicitly considers risks and rewards and access to benefits.	risks and rewards can be challenging to implement. This is indicated by experience in some jurisdictions in basing requirements for accounting for service concession arrangements on a risks and rewards basis.
021	D	In relation to question 2(a) we support an approach that takes account of both control and access to rights, including the right to restrict or deny others' access to rights. However, risks and rewards – while subordinate to the other two approaches canvassed should be acknowledged as an indicator of control and access to rights. Care needs to be taken when discussing rights of access to assets, as rights of access may, in themselves, be assets. The FRSB believes the first step is to identify the nature of the asset under consideration and then decide if that asset is an asset of the entity. Although we support using access to rights as a means of associating an asset with an entity, we note that it can be difficult to do this without reference to control (hence our response that it may be necessary to take account of both control and access to rights). If an entity has access to benefits, including the right to restrict or deny access to others), then it also has the ability to utilise the present service capacity inherent in those benefits.	Inter-relationship between control and risks and rewards noted.
022	D	Assets of an entity are related to control, risk, access to rights and claims enforcement mechanisms. I agree.	Framework CP-2 did not put forward a preliminary view that the definition should incorporate all these attributes.
023	A	A control approach should be used to associate an asset with a specific entity. While it is true that control may be difficult to apply in some cases because it requires judgment to ascertain the existence of control, indicators of control could be developed to assist in the judgment process. In addition, although control may be seen as applying to an asset as a whole, in reality the concept can be applied to individual rights that make up the whole. This idea can be illustrated by a components approach such as that taken in the Canadian PSA Handbook Guideline PSG-5, *Sale-Leaseback Transactions* Further, the existing asset definition used by the	Noted. Noted. See Memorandum, paragraphs 31-35.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		Financial Accounting Standards Board (FASB) in the U.S. is a control-based definition. And yet the possibility of assets being separable into components parts is recognized in FASB CON 6, Appendix B, paragraph 185. A risks and rewards approach requires an entity to dissect certain arrangements for the purposes of identifying the individual risk and rewards to make a determination of whether an asset is associated with an entity. It requires that an entity make an assessment of all related factors to determine whether the asset is of the entity. Without the anchor of control, it could result in range of possibilities given the varying degrees of risks and rewards associated with an asset. We feel that the concepts of control and risks and rewards are not completely separable. Doesn't an entity that controls an asset have access to the rights and rewards of the asset and also bear the risk of loss associated with the asset? Is it not possible for an entity to control only part of a bundle of future economic benefits? We feel that the concepts used to associate an asset with an entity should be fairly comparable to the concepts used to include an entity in a group reporting entity. However, the asset definition will need to make the decision regarding the specifics of association at the concepts level whereas the specifics of association for the reporting entity have been left (in the Phase 1 ED) for consideration at the standards level. The high level concepts in the Phase 1 ED are "the authority and capacity to direct the activities of other entities" and "the capacity to benefit or be exposed to a financial burden or loss". We agree with this approach for the entity and feel that a similar approach is appropriate for associating an asset with an entity too. This approach might eventually result in a control approach to the entity as well at the standards level. For example, the PSA Handbook defines control for the purposes of its reporting entity standard as: "Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities." In associating an asset with an entity, IPSAS 23 states: "**Control of an asset** arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit." This IPSAS 23 definition can be built on for use in the new framework. It does not encompass the risk of loss that may be associated with control of an asset and that risk aspect needs to be added. It also does not recognize that the future economic benefits associated with an asset may be unbundled and controlled by more than one entity. These refinements might be appropriate in developing the asset definition for the public sector conceptual framework.	
024	A	We believe "control" is the approach that should be used in defining an asset. However, the third	Noted.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		approach (access to rights, including the right to restrict or deny others access to rights) is considered acceptable.	
025	D	As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element's definition. In relation to Specific Matter for Comment 2(a), it may be difficult, in some circumstances, to associate an asset with an entity without considering the notion of control. Sometimes a resource is only a right (e.g., an amount receivable) and sometimes a resource is an object (e.g., owned property) that gives rise to various rights of its holder. This can cause different interpretations of 'rights' in relation to the identification of assets – for example, some argue that if a resource is a right, there is no obvious reason why it is preferable to say an entity *has access to that right* than to say an entity *controls that right*. In addition, if an asset is a right of access, using 'access to rights' would be confusing, because one would then say an entity has access to a right of access. Here, control would be more understandable. Therefore, the AASB supports an approach that includes either or both of the notions of control and access to rights, including the right to restrict or deny others' access to rights. The AASB also considers that the risks and rewards notion may be a useful indicator of control and access to rights.	Referred to in Memorandum, paragraph 32.
026	A	The DGFiP considers that the control approach must be held to associate an asset with an entity. This way, the DGFiP privileges the definition of the control such as it is defined in the French central government accounting standards and which is characterized by: - the ability to govern the conditions for using the asset; - the ability to govern the service potential and/or future economic benefits derived from using the asset. The fact that the central government bears the risks and expenses incurred in holding the asset shall also constitute a presumption of control, but cannot be sufficient to characterize it. For example, in the case of a public-private partnership contract where the risks are shared between the public sector entity and the private partner, the analysis does not always allow to conclude on the control.	Rationale for favoring control approach noted. And view that risks and rewards may lead to a presumption of control.
027	D	The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors. The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and	

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		stock holdings (specific description of control of an entity by another), on the other hand. The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets. More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that benefits from the service potential of these assets, even though it is the guarantor (custodian). Therefore, the two approaches are complementary.	
028	D	In our view, either the control approach or the access to rights approach should be used to associate an asset with a specific entity. We see the two approaches as being quite similar. We would expect nearly all items that are considered an asset under one approach would be considered an asset under the other approach.	Noted view that control and access to rights approaches are similar.
029	F	*Did not comment on this SMC.*	
030	A	HoTARAC is of the view that control should be the primary criterion used to associate an asset with a specific entity. In addition, HoTARAC is of the view that the following are critical factors that indicate the existence of control: • risks and rewards: • the ability to restrict or deny access of others' to benefits; and/or • enforceable claim to benefits. As per HoTARAC's previous comment in the response to ED 194 *Service Concession Arrangements*, the concept of risks and rewards is complementary to, and indicative of, control, and the concepts are not mutually exclusive. The concept of risks and rewards could be considered to be a more sophisticated aspect of control, however it is also more complex to apply in practice as a result. As highlighted in the consultation paper, different parties may have rights to different benefits and risk exposures related to a single resource, and consider judgment may be required to assess the relative risks and rewards of the different parties for the purpose of	As noted above, control will have to be defined, if it is used. As Framework-CP2 noted control has been defined differently by different standard setters.

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		associating an asset with a specific entity. Another factor indicative of control (for the purpose of linking an asset to an entity) is an entity's ability to restrict or deny others' access to the benefits. The absence of an entity's ability to restrict access either implies that the resource is freely available to all, which means that the resource is not a scarce economic resource that exhibits the essential characteristic of an asset or the asset is controlled by another entity. An entity cannot intuitively be said to control an asset if it cannot restrict access of others to the asset's economic benefits. Enforceable claim to benefits may be another strong indicator for linking a resource to an entity. However, as highlighted in paragraph 2.40 of the consultation paper, the absence of an enforceable and legal claim does not preclude an entity's access to economic benefits embodied in an asset. Accordingly, HoTARAC is of the view that an enforceable claim is another strong indicator of control (but not the primary criterion), as the absence of an enforceable claim does not necessarily mean that a resource should not be linked to an entity as an asset. Other factors that have been found to be useful in practice for identifying control in the public sector have been adequately identified in the consultation paper. For example, an entity's access to the rights to benefit from a resource in meeting its objectives could be an indicator of control, however HoTARAC agrees that this concept is too broad when used on its own, as highlighted in paragraph 2.36.	
031	D	The three approaches outlined in the Consultation Paper, are not mutually exclusive. Where, for example, a control approach is used, consideration of the risks and rewards related to the asset may provide a useful indication of whether control exists. Similarly, the access to rights may also be an indicator of control. We support that "control" should be used to attribute an asset to an entity, with "risks and rewards" being an indicator of whether control exists. "Control" is favoured over a risks and rewards approach as it may be difficult to apply the concept of risks and rewards in the public sector where, for example: • Assets are used by more than one entity, e.g. each entity may determine that it bears risk related to the asset and shares in the benefits. Accounting for assets using only such an approach (even if on the basis of "majority" benefits) may be subjective. • The intention of an arrangement is the sharing of risk, e.g. service concession arrangements.	Again noted view that approaches are not mutually exclusive.
032	D	With regard to the approach to be used to associate an asset with a specific entity, we believe that it is appropriate to use firstly "control" and, secondly "risk and rewards". The control approach focuses on the power to direct how the resource is used and is associated	

R#	CATE-GORY	COMMENTS ON SMC 2(a)	STAFF COMMENT
		with statutory rights, but, if the approach is also understood as the ability to control expected benefits, it may be applicable to leased assets. The access to rights, including the right to restrict or deny others' access to rights, need not be treated as a separate approach to be used to associate an asset with a specific entity because the concept of "control" an asset conveys such access to rights.	
033	E	I think that used to associate an asset with a specific entity will be have control, risks and rewards, these are control, is very important for public entities, but I have doubt about used for access to rights, when comments about restrict, deny I have doubt, principally in how´ll make control for this, how´s function of auditing for this application.	
034	A	Nova Scotia views control as the key approach. When looking to determine if control exists, consideration might evaluate risks and rewards of ownership or the ability to access (or restrict others' access to) the asset but control is the central concept in our view.	
035	A	To be considered an asset of the government, the government has to be able to control the economic benefit. Control is described as the ability of the government to utilize the resource for its benefit and to determine the nature and manner of its use. Control could also be further defined as having the ability to determine how to use the assets (i.e. access to rights); the ability to deny others access to the economic benefit (i.e. restrict or deny access of others); and having enforceable claims to a resource (i.e. enforceable claim to benefits). These are all refinements on the concept of control.	Linkage between approaches noted.

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE	**13 (46%)**
(B) DISAGREE	**12 (43%)**
(C) NO CLEAR VIEW EXPRESSED	**3 (11%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 2(b)	STAFF COMMENT
001	A	ACAG believes that an entity's ability to deny, restrict or regulate access to benefits is an essential characteristic of an asset.	See Memorandum, paragraphs 36-38.
002	A	In our view, such an enforceable claim or ability would be a right or other access to economic benefits, and the entity would therefore have an asset.	See Memorandum, paragraphs 36-38.
003	C	To be recognized as an asset, "prudence" should be applied and recognized only when the claim is actually enforced. The *enforceable claim to the benefits* should only be supported by the contractual rights. (Paragraph Reference 2.39)	Staff considers that such a requirement is over-restrictive.
004	A	Yes, NAO believes that an entity's enforceable claim to benefits or the ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity. Where the entity has enforceable claim to benefits, this is an indicator that the asset belongs to that entity. Where access to others is restricted or denied, this is another factor that might indicate that the entity owns the asset.	See Memorandum, paragraphs 36-38.
005	A	Yes. As discussed above, the ability to deny, restrict or otherwise regulate other's access is an important consideration in determining control over an asset, and is, therefore, the appropriate reporting. However, it is not an all encompassing factor for control. Factors, such as government decision and action to consume the resources in delivering public services, are critical. Many resources that are potentially available are being managed by government in a stewardship or regulatory capacity for the public but are generally not available to use in funding service delivery.	Noted view that the ability to deny, restrict or otherwise regulate other's access is an indicator rather than a determinant.
006	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 2(b)	STAFF COMMENT
007	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.	The term 'regulation' has particular connotations in the public sector due to the regulatory role of government. Staff considers that this may be a reason why the ability to regulate the access of external parties is not a determining characteristic of the existence of an asset.
008	D	*Did not comment on this SMC.*	
009	B	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.	
010	D	*Did not comment on this SMC.*	
011	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 judgments is a key aspect of the role of the professional accountant.	View on IASB evolving approach noted. Staff does not think that IASB approach is as restrictive as suggested, but will monitor developments going forward. Staff notes that the Framework-CP2 put forward the notion of 'economic ownership' as a counterpoint to legal ownership.
012	A	Yes, e.g. for the special case of the investment grants given (see also Heading 3.1.1).	
013	A	We consider that an entity's enforceable claim to benefits or ability to deny, restrict, or	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 2(b)	STAFF COMMENT
		otherwise regulate others' access are essential characteristics of an asset.	paragraphs 36-38.
014	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.	See Memorandum, paragraphs 36-38.
015	A	We support the concept of economic ownership. In our view economic ownership requires an enforceable claim to benefits or an ability to deny, restrict, or otherwise regulate access by others.	
016	D	*Did not comment on this SMC.*	
017	A	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.	See Memorandum, paragraphs 36-38.
018	B	The Joint Accounting Bodies do not consider that an enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access, is a precondition to linking a resource to a specific entity, rather it could be an indicator.	Referred to in Memorandum, paragraph 37.
019	A	The Task Force agrees with the proposed view that an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access can be used to trigger an assessment of linkage between a resource and a specific entity. However this approach should not replace other approaches (specified above) or be used as an exclusive criterion to link a resource to a specific entity.	Noted view that an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access might be used as an indicator, but is not an essential characteristic.
020	A	As noted previously, we believe that an entity's ability to deny, restrict, or otherwise regulate access to the benefits associated with a resource is an important consideration in assessing the entity's control of the resource and whether it should be reported accordingly.	Noted that consideration not a determinant.
021	B	In relation to question 2(b) we consider that an enforceable claim to benefits, or ability to deny, restrict, or otherwise regulate others' access, is necessary, but is not sufficient on its own to demonstrate an entity's link with an asset.	Referred to in Memorandum, paragraph 37.
022	D	*Did not comment on this SMC.*	
023	B	We feel that the requirement for an entity to have a legally enforceable claim in order to control access to the benefits may not, of itself, be considered an essential characteristic of an asset. However, the enforceability of the rights may be an appropriate indicator for linking a resource	Referred to in Memorandum, paragraph 37.

R#	CATE-GORY	COMMENTS ON SMC 2(b)	STAFF COMMENT
		and a specific entity. See comments regarding "indicators of control" in (a) above. The question in Matter 2 (a) uses the term "associate" and the question in Matter 2 (b) uses the term "link". We are not sure if the intent for each term is the same. Does "associate" mean that the concept will be included in the definition of an asset and "link" mean that the concept will be an indicator of whether an asset is associated with an entity? Or do they mean the same thing?	
024	A	As long as any claim is enforceable and provides service potential to an entity, it should be considered an asset.	
025	A	In relation to Specific Matter for Comment 2(b), the AASB considers that, depending on the nature of the item, either an enforceable claim to benefits or the ability to deny, restrict or otherwise regulate others' access would be necessary to link an asset with an entity. In this regard, the AASB agrees with the views in paragraphs 2.39 – 2.40 of the CP, but in the context of recognition criteria for an asset rather than the definition of an asset.	Noted that an enforceable claim to benefits or the ability to deny, restrict or otherwise regulate others' access is considered a recognition criterion.
026	B	An entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access cannot establish in itself an assumption of the link between the entity and an asset.	Noted.
027	C	More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that benefits from the service potential of these assets, even though it is the guarantor (custodian).	Noted.
028	A	In our view, an entity's enforceable claim to benefits and ability to deny, restrict, or otherwise regulate others' access to rights link a resource to a specific entity.	
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC is of the view that an entity's enforceable claim to benefits or ability to deny, restrict. or otherwise regulate others' access are not, on their own, adequate criteria for linking a resource to a specific entity. However, as commented above, HoTARAC is of the view that these factors, particularly the right to restrict or deny others' access to rights, provide indications as to whether	Noted view that entity's enforceable claim to benefits or ability to deny, restrict. or otherwise regulate others'

R#	CATE-GORY	COMMENTS ON SMC 2(b)	STAFF COMMENT
		control exists for linking a resource to a specific entity.	access are indicators .rather than key characteristics.
031	B	An "enforceable claim" does link a resource to an entity, although it is not the only means of linking a resource to an entity. As noted in the response to SMC 1 above, it is important to indicate how a resource arises for an entity, e.g. through a "right" or similar means. We consider the existence of an "enforceable claim" provides evidence that supports the recognition of an asset rather than it being a characteristic that defines an asset, i.e. a resource meets the definition of an asset because an entity has rights to receive economic benefits and/or service potential, but that those resources are only recognised as an asset when the rights are enforceable.	Noted that existence of an enforceable claim provides evidence rather than being a key characteristic.
032	D	*Did not comment on this SMC.*	
033	C	In the point 2.38 "In addition to being able to access benefits, the entity must also be able to control others' access to them by denying, restricting, or otherwise regulating their access. One standard setter illustrates this by contrasting the examples of outer space and natural resources under government land. The government can obtain benefits from using the outer space resource, but it is not an asset of the government because the government cannot restrict or regulate the access of others. The government also has the benefits of the natural resource under government land, but, in this case, the entity is able to regulate and restrict the access of others to the benefits. In this latter example, the natural resource might qualify as an asset of the government." I didn´t understand of the use of why access benefits, for the government and your structure isn´t used public information for control is very important observed if this point makes some impact as internal laws and rules for local or federal public entities, this point is very difficult for understanding, transparency and clarified of use of governmental information. The IPSAS will be observed others internal information about this subject.	
034	B	In Nova Scotia's view this would clearly link a resource to a specific entity however we do not feel this would be enough to warrant financial statement recognition.	Noted view that indicator rather than a determinant.
035	B	It is important to note that a government's control, enforceable claims to benefits or ability to deny, restrict, or otherwise regulate others' access only serves to link a public sector entity to an economic benefit. For the economic benefit to be considered to be an asset under the control of the government it is necessary to have a prior transaction or event.	Key issue is what such a prior event is.

SMC 2 (c):Are there additional requirements necessary to establish a link between the entity and an asset?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ADDITIONAL REQUIREMENTS NECESSARY	**4 (18%)**
(B) ADDITIONAL REQUIREMENTS UNNECESSARY	**18 (78%)**
(C) NO CLEAR VIEW EXPRESSED	**1 (4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**23 (100%)**
(D) DID NOT COMMENT	**12**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 2(c)	STAFF COMMENT
001	B	No.	
002	B	In our view it is not helpful to consider as separate issues (i) what is the essence of an asset and (ii) what are the links between an entity and a potential asset. Consistently with the views expressed above, we suggest that if the entity has a right to future economic benefits, that right is an asset.	
003	A	In the case of the rights, the relevant contracts, and in the case of public domain assets (Natural Resources) the existing constraints on them will depend on the laws of each country.	Referred to in Memorandum, paragraph 40.
004	A	A further requirement necessary to establish a link between the entity and an asset would be that the entity owns rights (such as copyright, patent and trademarks) to the asset. The entity would also be able to convert that asset into cash.	Referred to in Memorandum, paragraph 40.
005	A	Public sector organizations, particularly regulators, are performing a service on behalf of the public, but do not necessarily have the risks and rewards of that asset. For example, the ability to regulate access to harvesting a natural resource, such as managing fishing quotas, does not automatically make the natural resource (the fish) an asset of the government. It is important that the resource is controlled by the government and it will be used in funding public services. Many potential resources are an obligation for the government to manage and not a resource.	Referred to in Memorandum, paragraph 40.
006	D	*Did not comment on this SMC.*	
007	B	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.	
008	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 2(c)	STAFF COMMENT
009	C	By including the additional requirements the framework may narrow the scope of the linkage so the Risk and Reward approach stands simple and appropriate.	
010	D	*Did not comment on this SMC.*	
011	B	We have no other comments on specific matter for comment 2.	
012	B	No, no additional requirements are apparent.	
013	B	Not that we are aware of.	
014	B	The CNOCP has not identified other elements necessary for linking a resource to an entity.	
015	B	Additional requirements to establish a link between the entity and an asset are not necessary.	
016	D	*Did not comment on this SMC.*	
017	B	There are no additional requirements that CIPFA is aware of.	
018	B	The Joint Accounting Bodies are yet to identify any additional necessary requirements.	
019	B	No Comment.	
020	B	We do not believe that there are any additional requirements necessary to establish a link between the entity and an asset.	
021	D	*Did not comment on this SMC.*	
022	D	*Did not comment on this SMC.*	
023	B	We do not suggest additional requirements. Rather we suggest development of indicators of control when control is defined as something that encompasses the following ideas: **Control of an asset** arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, can exclude or otherwise regulate the access of others to that benefit, and is exposed to any risk of loss related to the asset.	Noted view for provision of indicators of control.
024	B	No other requirements are necessary.	
025	D	*Did not comment on this SMC.*	
026	B	For the DGFiP, there are no additional requirements necessary to establish a link between the entity and an asset.	
027	D	*Did not comment on this SMC.*	
028	B	In our view, there are no other requirements needed to link an entity and an asset.	

R#	CATE-GORY	COMMENTS ON SMC 2(c)	STAFF COMMENT
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC has not identified any additional requirements. Other comments: HoTARAC believes it is important that there is a clear distinction between a government's right to benefit from the economic benefits embodied in an asset, and the rights the government obtains through its regulatory or legislative role. In addition, IPSASB may want to consider the exercise of ownership rights of SNA 2008 as clarifying text to the risks and rewards view. Below is the relevant extract from SNA 2008. 7.11 In some cases, governments can create economic assets by exercising their sovereign powers or other powers delegated to them. For example, a government may have the authority to assert ownership rights over naturally occurring assets that otherwise would not be subject to ownership, such as the electromagnetic spectrum and natural resources in international waters subject to designation as an exclusive economic zone. These assets are economic assets only if the government uses its authority to establish and enforce ownership rights.	Staff acknowledges the point about the regulatory role of government and considers that a regulatory role is not a determining characteristic of an asset.
031	A	Resources may be attributed to an entity in a variety of ways. The Consultation Paper explains that these resources may arise from contractual rights. They may, however, also arise through legislation. For example, taxes, fines and appropriations receivable are typical examples of resources that arise from legislation rather than the conclusion of a contract.	Referred to in Memorandum, paragraph 40.
032	D	*Did not comment on this SMC.*	
033	D	*Did not comment on this SMC.*	
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) JUST A PRESENT RESOURCE	**6 (19%)**
(B) PAST EVENT DESIRABLE/HELPFUL	**13 (41%)**
(C) PAST EVENT MUST OCCUR	**11 (34%)**
(D) NO CLEAR VIEW EXPRESSED	**2 (6%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**32 (100%)**
(E) DID NOT COMMENT	**3**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
001	A	ACAG considers that a past event should not limit the recognition of an asset. Instead, the more essential consideration is whether it provides a present resource available to the entity to meet its future obligations or contribute to the entity's service potential.	See Memorandum, paragraphs 42-44.
002	B	We understand the argument that, if the definition refers to a "present resource" it is unnecessary to refer a past event. However, we believe that the reference to 'a past event' is helpful. It emphasises that, for an asset to have come into existence there must have been a past transaction or event, and underpins the role of the financial statements in providing an account of historical transactions. An asset may be seen as the link between the past (when it came into existence) and the future (when it will yield economic benefits). Reference to 'a past event' is also helpful in distinguishing mere current expectations of future benefits from rights that have been purchased or otherwise acquired.	See Memorandum, paragraph 43.
003	B	The characteristic must be: a present resource originated in past events. (Paragraph Reference 2.41) Those are the two characteristics, some assets are the result of past events. The important thing is that such asset must exist at the end of the reporting date. (Paragraph Reference 2.47 and 2.48)	See Memorandum, paragraphs 42-44.
004	B	NAO opines that it is preferable for there to be also a past event that occurs in order to recognise an asset. The occurrence of a past event provides further evidence of the existence of a present resource. However, in the absence of a past event, one is to evaluate whether the availability of a "present" resource on its own represents an asset.	Referred to in CF Memorandum, paragraph 43.
005	B	The existence of a past event is supported as it is an indicator of the right to access benefits of the	Staff not convinced that the

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		resource. In the absence of a past event, unrealized gains on financial instruments or crown assets, such as forests, could impact the yearly financial results, thus eroding transparency in general purpose financial statements and making the GPFS ineffective for accountability reporting to the public.	absence of a past event necessarily determines the accounting treatment of unrealized gains on financial instruments or crown assets. It is also questionable what the past event is in the context of these two areas.
006	C	In our opinion the occurrence of a past event should be a criterion to define assets and liabilities.	See Memorandum, paragraphs 42-44.
007	B	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.	Noted view that past event may be an indicator. Staff might explore circumstances where identification of a past event is impractical and costly. Staff acknowledges that there may be multiple possible past events.
008	C	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.	Noted.
009	A	For initial recognition of assets, it should be a present resource.	See Memorandum, paragraphs 42-44.
010	C	In our view, in order to recognize an asset or liability there would need to be a past event.	See Memorandum, paragraphs 42-44.
011	B	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	Staff notes the view on the IASB approach, but does not consider that the IASB view

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		which is consistent with the IASB's definition, when that is finally determined	should preclude IPSASB consideration of this issue.
012	B	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.	Staff not convinced that liquid funds and financial investments are precluded from being assets according to this argument.
013	B	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.	Staff agrees
014	C	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	Noted.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	
015	C	From an auditor's view we welcome objective accounting guidelines. If a past event needs to have occurred, the existence of an asset is more easily verifiable on an intersubjective basis. This is the reason why we support the view that a past event must have occurred.	Noted that identification of a past event can make verification more straightforward. Staff is not convinced that such a view is sufficient to require a past event.
016	E	*Did not comment on this SMC.*	
017	B	CIPFA considers that there must have been an event, or a series of events, that result 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 in principle 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. Having said all of the above, we would note that the 'past event' approach may be helpful in providing a trigger for recognition in particular IPSAS standards.	Noted. Staff agrees that identifying a past event can be problematic.
018	B	The Joint Accounting Bodies believe it is sufficient to state that an asset is a present resource. However, we acknowledge that a past transaction or event may be useful as an indicator that an asset exists. Therefore, we support the statement to this effect made at paragraph 2.47 of the CF CP Elements and Recognition.	Noted. See Memorandum, paragraphs 42-44.
019	A	The Task Force concurs with the view that existence of a resource at the reporting date is a more important consideration than whether a resource is a result of past transaction(s). However, we note that it is a rare occurrence that an asset which exists at the reporting date did not originate from an event which occurred prior to or at the end of the reporting period.	Noted esp. view that a past event prior to reporting date will generally be identifiable.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
020	C	We believe that an asset must result from a past event as this is generally necessary to establish the control and right of access to the benefits associated with a resource and to expose the entity to the risks and rewards of the asset.	Noted.
021	B	We do not consider that identification of a past event is required in order for an asset to exist. The question of whether or not an asset exists should be answered by reference to present circumstances. However, we acknowledge that a past transaction or event may be useful as an indicator that an asset exists. We therefore support the statement in the CP that a past transaction or event may be regarded as "an indicator of evidence supporting the existence of a present resource" (paragraph 2.47).	
022	D	Past events or present resources are part of the definition. I agree.	Staff question whether the existence of a past event in the absence of a present resource provides sufficient evidence of the existence of an asset. See also Respondent 025
023	B	Yes – it is sufficient to state that an asset is a "present" resource. However, the occurrence of a past transaction or event may be crucial evidence that prompts an entity to evaluate whether it has a present resource resulting from that transaction or event. Perhaps indicators that a public sector entity should consider in evaluating if it has a present resource to be recognized as an asset might be an option here (see same suggestion for liabilities below). We do not believe that the role of a past transaction or event should be eliminated from the guidance surrounding the asset definition but do not believe that it is a defining characteristic of an asset.	Referred to in Memorandum, paragraph 43.
024	A	It is not necessary that a past event occur as long as control exists at the present time.	Noted.
025	B	The AASB considers that every asset of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that i*dentification* of a past transaction or other past event of the reporting entity should not be necessary for an asset to qualify for recognition. This is because the AASB agrees with the argument in paragraph 2.46(b) of the CP, albeit in the context of recognition criteria for an asset rather than the definition of an asset (because a past transaction or other past event would be one way of associating an asset with a particular reporting entity).	Noted view that issue of a past event should be seen in the context of recognition criteria. Staff highlights particularly the view at (b)

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		Nevertheless, the AASB supports: (a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that an asset of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while (b) noting that the existence of a past transaction or other past event does not guarantee that an asset continues to qualify for recognition.	
026	C	The fact that an asset is a « present » resource is not sufficient to define an asset. So, the frequency spectrum which is "permanent" resource, was recognized as asset that at the time of its revelation by a contract which allowed to value it in a reliable way. A parallel can be made with a brand generated internally by a company. This brand neither will be recognized, nor estimated as immaterial asset, unless this brand is acquired in a business combination. So, the DGFiP considers that a past event is necessary to allow the identification and the recording of an asset.	Staff notes that there is currently an active debate as to whether internally generated intangible assets should be recognized in a broader context. In the view of staff this is a standards-level issue,
027	C	The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).	See Memorandum, paragraphs 42-44.
028	A	In our view, it is sufficient (and preferable) to state that an asset is a present resource. In most cases the present resource will arise because there has been some past event. However, specifying a requirement for a past event is unnecessary, and from experience can cause debates about whether there has been an event that gives rise to a particular asset.	Noted view that it can be contestable whether a past event has occurred.
029	E	*Did not comment on this SMC.*	
030	A	HoTARAC does not consider a past event a necessary condition for the existence of an asset. HoTARAC is supportive of the view that the primary criterion of an asset should be a "present" resource, with the existence of a past transaction or event being an indicator that an asset exists. HoTARAC agrees that, at a minimum, an asset must be a present and unconditional resource as at reporting date for it to be recognised, or continued to be recognised, as an asset in the financial statements. This would avoid the issue identified in paragraph 2.46 that assets may no longer exist at reporting date. HoTARAC's view is that a past event is not critical for the definition of an asset, and the focus and effort should be better applied to determine whether a 'present' resource exists at reporting	Noted point about 'unconditionality'.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		date. HoTARAC notes that GFS includes the concept of produced and non-produced assets, with non-produced assets including natural resources that have not arisen as the result of a past event.	Noted.
031	C	The word "present" implies that a something must have happened in the past to give rise to a "present resource". As a result, we are of the view that regardless of whether "present" is used in the asset definition, or specific reference made to a "past transaction of event", the result is the same. We do however support the principle that an event must occur to give rise to an asset and, as a consequence believe that using the word "present" captures this concept. During our deliberations on what is meant by a "present" resource, it was suggested that the Framework should explicitly state that executory contracts should not be recognised. We would support the view that executory contracts meet the definition of assets and liabilities as they give rise to rights and obligations. The fact that they should not be recognised as either an asset or liability depends on the recognition criteria developed. As an illustration, executory contracts will only be recognised once an enforceable claim exists, which will only arise when one of the parties performs. Until that point, the recognition criteria are not met. Also see our comments under specific matter for comment 2 on "enforceable claim" and specific matter for comment 17 on recognition criteria.	Noted view that 'present' implies a past event. Executory contracts may have to be dealt with explicitly.
032	E	*Did not comment on this SMC.*	
033	D	In the point 2.47 I don´t know if for the government is most useful this specific point, generally past events don´t included in the budget, in the financial reporting I don´t know if is practical for the public sector this is very important for the companies that this resource. This idea is related with point 2.52 "… This view depends only on the condition that the rights to the benefits exist at the reporting date. It does not require a past transaction or event to have occurred to crystallize the rights as an asset".	
034	C	In Nova Scotia's view there should be a past event that occurs prior to recognition. There may need to be standard that anticipates certain assets that were not initiated by a past event (i.e. in Canada crown land is an "asset" that is controlled by virtue of being government, it was not purchased, therefore it is recognized at a nominal value in the financial statements) and how these items should be treated.	See Memorandum, paragraphs 42-44. Staff considers that it may be possible to identify a past event in respect of crown land.
035	C	The Consultation Paper discusses if the occurrence of a past event or transaction, which gave rise to the government's control of the economic benefit, is necessary, or is it simply sufficient for the economic resource to be present at the balance sheet date. We strongly believe that the occurrence of a past transaction or event, which gave rise to the government's control of the	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		economic benefit, is a necessary characteristic of an asset. The Consultation Paper makes the argument that the inability to identify a past transaction may lead to the non-recognition of an asset, or past transaction or events may have resulted in an asset that no longer exists. There is always an event or transaction that led to the government's control of the asset. For most assets the transaction or event is very easy to identify. The vast majority of public sector assets result from incurring expenditures that will be used to provide services to the public at a later date. Another example of a past transaction or event be the government granting access to natural resources to another party. An example would be royalties collected by governments for the extraction of timber, minerals and other natural resources. We would not view it appropriate for governments to accrue natural resources as an asset at the reporting date. If the Conceptual Framework required governments to accrue natural resources it would not only be difficult to verify but the information would be of little relevance without also accruing a liability for extracting the resources. This would require governments to develop complex and very subjective estimates. This would likely reduce the timeliness of the information and the comparability of the information between jurisdictions. The information would likely not be understood by the general public and it really doesn't provide any relevant information in assessing the government's management of its financial resources. We do not agree with the view that a government's right to the benefits from future taxes and fees represents a perpetual asset at every reporting date, even if it was possible to place a value on such an asset. We are of the view that the authority of governments to tax or raise fees does not represent an asset. The authority to raise taxes and levy fees is not a right to future benefits until the government has exercised that right. An asset exists at the reporting date only after the government has passed the legislation and levied the tax for the fiscal period, or has provided the services to the users for a fee.	As mentioned before, the question of natural resources and government lands will need to be considered.

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) INHERENT ASSETS OF A PUBLIC SECTOR ENTITY	**5 (15%)**
(B) ASSETS ONLY WHEN POWERS EXERCISED	**26 (76%)**
(C) MORE APPROPRIATE EVENT	**-**
(D) NO CLEAR VIEW EXPRESSED	**3 (9%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**34 (100%)**
(E) DID NOT COMMENT	**1**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
001	B	ACAG agrees with the position outlined in paragraph 2.54 – 2.56 and considers that rights and powers only meet the definition of an asset where the powers are exercised. ACAG agrees that these rights and powers are only potential assets until they are exercised by Government.	See Memorandum, paragraphs 109-111
002	B	We do not believe that the power to tax and levy fees should be reported as an asset. In our view, it is only the legislature (not the government) that has the right to require taxes and fees, therefore a government should report an asset in respect of tax or fee only when an event that gives rise to a right to receive tax under current legislation takes place.	See Memorandum, paragraphs 109-111
003	B	(b) A government entity's power to levy a tax or impose fees meets the definition of an asset only when the government has exercised that power through the tax or fee ACCRUAL (a power view). Rationale: We must be consistent with the concept of accrual; in paragraph 2.51 it says "levy", that would only be usable for determining the budgetary outcome but not the equity outcome. (Paragraph Reference 2.49) We understand that the Prudence principle should be applied only when such power is exercised by the State. The exercise of power by the state must not only be restricted to the right collection but it can also be defined at the moment in which the taxable event to acknowledge it is generated, with legal grounds supporting it.	See Memorandum, paragraphs 109-111. Staff notes that prudence has not been proposed as a qualitative characteristic.
004	B	NAO is of the opinion that public sector entity rights and powers, such as those associated with the power to tax and levy fees, are assets only when those powers are exercised. The benefits associated with the power to tax, even if measurable, do not constitute an asset if that power is	See Memorandum, paragraphs 109-111.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		not exercised.	
005	B	Consistent with the argument of a requirement for a past event to occur for an asset to be considered, it is appropriate to withhold recognizing an asset until the entity has exercised its power (thereby providing evidence of its right to access benefits). It is the intent, actions and decisions of government that should be reflected in the financial statements.	While the actions and decisions of government should be reflected, Staff considers it more contestable whether intent should be reflected
006	B	In our opinion the public sector rights to tax and levy fees should only be accounted for as assets when those powers are exercised or when the event that gives the public sector the rights to exercise e.g. a specific tax have occurred.	See Memorandum, paragraphs 109-111.
007	B	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.	See Memorandum, paragraphs 109-111.
008	B	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.	As mentioned before, these assets will have to be referred to in the ED (whether recognized in the financial statements, or not).
009	B	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 materialised.	Noted perspective of developing nation.
010	B	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 liability recognition.	Staff considers that this is a public sector specific issue and that it is unlikely to be debated extensively by IASB.
011	B	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	It is unlikely that a debtor could be identified prior to

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		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.	exercise of the power, although whether this precludes the existence of an asset might be questionable.
012	B	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*".	Noted.
013	B	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.	It may be important to distinguish assets that are recognized in the financial statements from those that are not. (This comment also applies to similar observations on this SMC by other respondents.)
014	B	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.**	Staff notes that it is possible to have an asset that is not measurable.
015	B	From an auditor's view we welcome an objective guideline. In our view accountability is also a question of practical feasibility. We expect that the measurement of public sector entity rights and powers is not verifiable intersubjectively and would be subject to large fluctuations in value. This is the reason why we support the view that public sector entity rights and powers, such as the power to tax and levy fees, are <u>only assets when those powers are exercised</u>. We appreciate, however, that the appropriate information is helpful for the users. Against this background such public sector entity rights and powers should be presented and measured (by	Noted. It is not clear how such

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		way of an estimate) in the notes or in other reports such as a long-term fiscal sustainability report.	rights would be estimated.
016	D	In Denmark we do not include public sector rights as those associated with the power to pay tax in our financial statements.	Noted, but this does not necessarily mean that they are not assets.
017	B	We consider that the power to tax and levy fees is in itself an asset. However in our view it would be difficult to develop a workable approach to recognising and measuring a theoretical power to tax. We therefore agree that when developing IPSAS standards which relate to assets, 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.	See comment re; respondent 13.
018	A	The Joint Accounting Bodies consider the unique powers and rights of government such as the power to tax and issue licences are assets. Therefore, we consider it important that the asset definition is kept general and broad. Whether or not an asset is recognised in the financial statements is, and should remain, a separate matter and be dependent on the asset satisfying prescribed recognition criteria. The finalised Framework must be clear on this sequencing.	Staff particularly highlights the view that definition and recognition are separate processes.
019	B	Some United Nations System organizations have rights to issue international patents, trademarks and levy fees as prescribed by international treaties and agreements. The Task Force is of the view that rights to issue patents, licenses and levy fees can be considered for recognition as assets when those rights are exercised. However, in order to recognize any resource as an asset in financial reports of an entity, such resource should meet the definition of an asset and the reporting entity should be able to measure it reliably.	Noted.
020	B	As noted previously, we believe that the existence of a past event is necessary to consider a resource as an asset of an entity. Consistent with this view, we believe that rights and powers of a public sector entity should only be recognized after the right or power has been exercised and provides evidence of the right to access benefits. We feel that including assets related to the power to tax and levy fees would reduce the relevance and reliability of the financial statements to users as a result of the significant judgement and estimates that would be required to value future revenues. It also does not support the revenue expense-led approach as discussed in	Staff notes these comments, but considers that meeting the definition of an asset does not imply recognition.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		Matter for Comment 13 below.	
021	A	We consider that the identification of assets (through application of the definition of an asset) should be independent of recognition criteria. We consider that a government's rights/powers to tax and levy fees are assets. However, such assets might not qualify for recognition in the financial statements. The right to tax is a different asset from a taxation receivable. A taxation receivable may exist only once an event (such as the exercise of the rights/powers) has occurred. The recognition of any such taxation receivable would be subject to recognition criteria, as would rights/powers to tax and levy fees. We generally support the ideas presented in paragraphs 2.52 and 2.53 of the CP. However, rather than saying that such rights would still have measurement hurdles to overcome, we would prefer to say that, as with any assets, they would be subject to recognition criteria to determine whether they are recognised in the financial statements. If entities have significant unrecognised assets this could raise disclosure issues.	See above. Staff particularly notes the view that definition and recognition are separate processes.
022	D	There is a concommitant power to tax or levy with regard to maintaining the asset or the rights to the same. I agree.	
023	B	Public sector entity rights and powers, such as the power to tax, only have the potential to create assets for the public sector entity when they are exercised. The power to tax represents an intention to levy tax in the future. It does not represent a present resource. An asset does not exist yet. Nor has there been a past transaction or event that would prompt an entity to look for the existence of an asset – that would only happen once the tax has been authorized and levied. The power to tax or license represents an ability to obtain assets by imposing taxes or fees but is not in itself an asset. A power to tax or license is not a present economic resource because such powers are not capable of producing inflows of cash, cash equivalents or goods and services to the public sector entity nor are they yet capable of providing services to the entity or its constituents. Unless it has been exercised, the power to tax or license cannot be used for the production of goods, provision of services or consumption by the entity. It cannot be used to purchase goods or services or give an entity the right to receive goods or services or the right to use others' assets.	See comment re respondent 13 above.
024	B	As long as the rights are legally enforceable, they are an asset only when those powers are exercised.	See Memorandum, paragraphs 109-111.
025	A	As mentioned in the covering letter, the AASB's view is that assets should be defined without limiting them to items that would necessarily be recognised in financial statements. In addition,	Staff notes reservations about term 'perpetual asset'.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		as noted in its comments on Specific Matter for Comment 19, the AASB is of the view that the recognition criteria should be separate from definitions of the elements of financial statements. Accordingly, a government's rights/powers to tax and levy fees should be identified as assets, although assets associated with a government's rights/powers to tax and levy fees might not qualify for recognition in the financial statements until an event (such as the exercise of the rights/powers) occurs. The AASB does not support depicting a right to tax as a 'perpetual asset' because the levying of some taxes constrains the government's ability to levy further taxes—therefore, some of the future economic benefits embodied in the right to tax are consumed by the levying of the tax (and therefore the right is not perpetual).	Also note Staff comments on Respondents 18 and 21
026	B	The DGFiP considers that the rights and powers inherent to the public entities, such as those associated with the power to tax and levy fees, become assets only when these powers are exercised. Nevertheless, these rights and powers must also be assessable. Consequently, the same logic as that held for the recording and the valuation of the frequency spectrum, applies as far as the right of the entity was temporarily handed and against financial flow to a third, allowing its evaluation and its entry in the balance sheet of the central government.	See Memorandum, paragraphs 109-111.
027	A	The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the annual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year. According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.	See comments on Respondents 18, 21 and 25.
028	B	An entity's power to tax or levy fees arises under legislation. Therefore, the power is regulatory in nature. Although such powers could be seen as an asset, in our view, the powers in themselves should not be considered sufficient to give rise to an asset. In our view, it is the exercising of powers that gives an entity rights that lead to the entity having an asset. If an asset is considered to exist before regulatory power is exercised, we expect that financial statements will lose their	Noted, although Staff is not convinced that taxation powers are regulatory and considers that this may depend on the jurisdiction.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		relevance to readers, and become more difficult for readers to understand.	
029	B	The paper describes an asset in terms of its ability to be used to provide service and its ability to generate cash from its sale or from user fees. It specifically raises the possibility of including mineral rights as an asset which is consistent with the existing IPSAS 27 on Agriculture. The province does not support the concept of including natural resources on the government's balance sheet. Jurisdiction over natural resources within Canada's boundaries is assigned by our constitution to the applicable province. While the province recognizes its custody of these resources on behalf of the public it does not attempt to measure or report the quantity or value of these items. The government did not pay for these assets and only accounts for these assets when a disposal occurs, usually through a license to explore for and extract mineral resources or a license to harvest timber or when Crown land is either sold or granted to someone. It is difficult to understand how any jurisdiction would be able to estimate the physical quantity of natural resources that have not yet been discovered or to state their quality or their value. Even if the province is aware that a mineral deposit exists, it will not develop the property. The province auctions licenses to the private sector to explore for undiscovered resources and develop/extract any commercially viable resources found. IPSASB could argue that the opportunity to license could be recorded as an asset, but it would be very difficult and highly unreliable to estimate the likely market/auction value of all possible licenses that could potentially be sold. The Consultation Paper discusses recognition issues in Section 6 of the paper, addressing both existence uncertainty and measurement uncertainty. The discussion and the questions asked for discussion assume that it is preferable to estimate and record any asset identified. There is a concern that attempting to place a value on the quantity of natural resources on or in public land would not be any more meaningful to the primary users of the financial statements than not disclosing any natural resources on the balance sheet. Any claim that the market value of natural resources represented by a multiple of the sales price of one unit of the resource that sells in an open market is meaningful is uncertain; because the volume of the resource being measured could in some cases exceed an entire year's trading activity. The unit value for selling all available natural resources, for all Canadian provinces as they all have the same fiscal year end, would drive down the "market price" to virtually nil. To assume that a meaningful value results from a multiple of the sale price of a marginal quantity of the natural resource would introduce as much subjectivity to the balance sheet as saying you are unable to place a value. Equally concerning to governments would be the expectation that may be created in the mind of the reader of the financial statements that this "value" is available to be spent on goods and	Staff notes these points and accepts that estimating physical quantities of natural resources is extremely difficult. However, this does not necessarily preclude the existence of an asset.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		services for the benefit of the financial statement reader. In discussing public sector rights or powers the Consultation Paper raises the issue of whether the government's inherent right to tax is an asset that should be recorded on the balance sheet. The paper reviews two perspectives being the right to tax is an asset or the power to tax is an asset. In one perspective, the right to tax, although seen as being limited by political, social and economic realities, is none the less a right to future benefits. In the second perspective the power must be exercised or exercisable by the government before future benefits can be considered to exist. This is understood to mean that in the first perspective there is no need for a taxation law to exist, merely having the right or capacity to establish a law conveys a benefit on government. In the second perspective a law must exist defining the tax and its basis of assessment to be recognized as an asset. Either of these basis of taxation result in recording future tax revenue for an indefinite period, presumably on a net present value basis. The paper does note that the benefit can be assigned to another entity for a fee which would crystallize its value, for example the sale of the rights to toll a road for a number of years into the future. The province does not support recording future tax revenue as an asset for an indefinite period into the future (presumably it would be estimated on a net present value basis) on the sole basis that it has the opportunity to submit legislation to impose or collect a tax in the future. Unless all future governments are assumed to have a majority in the legislative assembly and would support the tax in question legislative passage is not assured. The province also does not support recording on a net present value basis all future taxes it expects to collect on the basis of existing law because no taxing event has occurred and conversely no taxpayer is required to acknowledge a liability. The province does support accruing tax revenue when the taxing event has occurred, such as personal income taxes assessed on a calendar year basis, with a filing deadline by the taxpayer of April 30, for the government's March 31 fiscal year end. The province would also support the recording of the sale of future rights to tax, such as the example of selling the right to toll a road, where the province receives a lump sum today for tolls/taxes covering services is to be provided in the future and the buyer will collect in the future, but this would require establishment of an element to recognize deferred revenue.	
030	A	HoTARAC believes rights to tax and levy fees are assets. However, the definition of an asset should be separate from recognition criteria and assets such as a right to tax would be unlikely to fulfil the recognition criteria before a taxable economic event occurs. Other comments: HoTARAC supports the 'power' view for recognising assets arising from a public sector entity's	See comments on Respondents 18, 21 and 25.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		rights and powers, such as those associated with the power to tax and levy fees. While a government has an inherent right to future benefits from taxes and fees from its constituents, this right is recognised as a govemmenfs enforceable claim on a specific taxpayer's economic resources once a taxable event has occurred. The government's inherent right is perpetual, and in contrast with other assets, never diminishes, regardless of the amount taxed in a particular period. In this instance, HoTARAC is of the view that recognition on the government's financial statements should focus on its enforceable claim on a taxpayer's economic resource, which currently would be recognised when the tax event occurs. If the time the tax event occurs is not able to be reliably identified then the recognition point is when the tax is assessed. This approach is aligned with the Government Finance Statistic framework.	
031	B	We are of the view that rights are not inherent assets of an entity and support the view that assets only arise once a right has been exercised. The existence of a right in itself does not give rise to a claim to economic benefits or service potential. It is an event or action related to the exercise of this right that gives rise to an asset. For example: The right to tax may exist at reporting date. Without a taxpayer earning taxable income during the reporting period, there is no right to collect tax and consequently no economic benefits will be received. While we acknowledge the view that a government or public sector entity has both rights and obligations into perpetuity, it is important to consider what assets and liabilities exist based on the exercise of these rights at a point in time, i.e. at the reporting date.	Referred to in CF Memorandum, paragraph 110.
032	B	We support the approach that public sector entity rights and powers, such as those associated with the power to tax and levy fees, are assets only when those powers are exercised. We believe that recognizing inherent rights and powers of public sector entities in the same way as rights and powers of private sector entities is relevant for users of financial reports.	Noted.
033	D	I think that this point is better discussed when finished discussion Exposure Draft 1 for IPSAS.	Staff unclear why this issue should be deferred until discussion of ED has been completed.
034	B	It is our opinion that a power is not an asset. Powers become assets when the underlying authority is exercised by government and the associated activity or transaction occurs triggering the obligation on another party that then owes the tax or a fee to government. As residents earn taxable income the respective government accrues assets, however the right to tax or levy fees in itself is not an asset. The tax structure must be in place and there must be residents earning income in the jurisdiction. Therefore, we feel the power must be exercised and there must be an	Noted.

R#	CATE-GORY	COMMENTS ON SMC 4	STAFF COMMENT
		intermediate event whereby residents/ citizens incur the charges.	
035	E	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) FURTHER ADDITIONAL CHARACTERISTICS IDENTIFIED	**1 (4%)**
(B) NO FURTHER ADDITIONAL CHARACTERISTICS IDENTIFIED	**24 (89%)**
(C) NO CLEAR VIEW EXPRESSED	**2 (7%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(D) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 5(a)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	A	**Assets of the State**. Given their specific and unique public sector characteristics, they should be specifically contemplated.	These characteristics were identified in the responses to SMC 4. Referred to in paragraph 113 of the Memorandum.
004	B	NAO believes that there are no additional characteristics that have not been identified and that are essential to the development of an asset definition.	
005	B	We have no additional comments on this topic.	
006	D	*Did not comment on this SMC.*	
007	C	It is difficult to answer these questions until the IASB deliberations are finalised. Any definition gap between the IASB and the public sector can then be identified.	Staff notes this view and agrees that it would be helpful if IASB deliberations on Conceptual Framework
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no other matters to raise on the definition of an asset.	

R#	CATE-GORY	COMMENTS ON SMC 5(a)	STAFF COMMENT
012	B	No, no additional characteristics are apparent.	
013	B	No.	
014	B	The CNOCP considers there are no other additional characteristics essential to the definition of an asset.	
015	B	No further comments.	
016	D	*Did not comment on this SMC.*	
017	B	We have not identified any additional characteristics.	
018	B	The Joint Accounting Bodies have not identified any additional characteristics or other relevant issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of an asset.	Staff continue to liaise with IASB counterparts and there has been significant discussion of the Conceptual Framework at IASB-IPSASB Liaison meetings
019	B	No comment.	
020	B	We do not believe that there are additional characteristics that are essential to the development of the definition of an asset.	
021	B	We have not identified any additional characteristics or other relevant issues.	
022	D	*Did not comment on this SMC.*	
023	B	No.	
024	B	No other characteristics need to be considered.	
025	B	As indicated in the AASB's submission on the IPSASB CP *Measurement of Assets and Liabilities in Financial Statements*, an idea of the stock of an entity's wealth (or capital) is important for defining the elements of its financial statements. This is because assets and liabilities are stores of wealth and claims to those stores of wealth. This point is reiterated here as a reminder of the link between the measurement and elements components of a Conceptual Framework. Subject to the comment above, the AASB has not identified any additional characteristics or other relevant issues. The AASB does however recommend that the definitions of assets and liabilities be symmetrical, or at least that any asymmetry is explained.	Linkage noted in discussion of concepts of capital and capital maintenance. Need for symmetry in

R#	CATE-GORY	COMMENTS ON SMC 5(a)	STAFF COMMENT
			definition of assets and liabilities needs to be considered and also in recognition criteria.
026	B	The DGFiP did not identify additional characteristics to define an asset.	
027	B	No.	
028	B	In our view, there are no additional characteristics essential to the development of an asset definition.	
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC has not identified any additional characteristics that are essential to the development of an asset definition.	
031	C	Refer to comments made under SMC 1.	
032	D	*Did not comment on this SMC.*	
033	B	I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot included these questions, isn´t responsibility of IPSASB-IFAC.	
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

SMC 5 (b): Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) FURTHER RELEVANT ISSUES AND/OR UNIQUE PUBLIC SECTOR CONSIDERATIONS IDENTIFIED	**9 (32%)**
(B) NO FURTHER RELEVANT ISSUES AND/OR UNIQUE PUBLIC SECTOR CONSIDERATIONS IDENTIFIED	**16 (57%)**
(C) NO CLEAR VIEW EXPRESSED	**3 (11%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 5(b)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	A	**Assets of the State**. Given their specific and unique public sector characteristics, they should be specifically contemplated.	This was also mentioned under SMC 5(a).
004	A	The IPSASB is to consider how certain assets such as heritage assets are to be valued and the calculation of their estimated useful lives.	Referred to in CF Memorandum, paragraph 116.
005	A	In Canada, most senior governments have chosen to align the preparation and presentation of their summary budgets on the same basis as their summary financial statements. Senior Canadian Governments feel that being able to provide budget-to-actual comparatives on the Statement of Operations best achieves transparency and accountability in meeting user needs, and that maintaining alignment between fiscal and accounting policy frameworks is desirable. A key objective of the IPSASB should be to support existing accountability frameworks in the public sector. Therefore, it will be critical for the IPSASB to consider the realities of existing international governments' fiscal policy frameworks (i.e. balanced budget frameworks) in determining the impact and likely acceptance of its conceptual framework and standards in the international community.	Referred to in CF Memorandum, paragraph 116.
006	D	*Did not comment on this SMC.*	
007	C	It is difficult to answer these questions until the IASB deliberations are finalised. Any definition gap between the IASB and the public sector can then be identified.	IASB developments will be monitored.
008	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 5(b)	STAFF COMMENT
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no other matters to raise on the definition of an asset.	
012	A	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).	Referred to in CF Memorandum, paragraph 116.
013	B	No.	
014	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.	
015	B	No further comments.	
016	D	*Did not comment on this SMC.*	
017	A	Arguably one of the greatest assets of the State to its population is social capital. For example the rule of law and associated property rights and good governance in the conduct of government through the avoidance of corruption and extortion. By permitting the peaceful and lawful enjoyment of property, commerce and trade is facilitated, innovation encouraged through maintenance of intellectual property rights, savings and investments are encouraged and so overall economic well being is enhanced. This is both a benefit in itself, and will generally result in a greater tax base and higher tax revenues.	Social capital is beyond the scope of this phase of project. Referred to in CF memorandum, paragraph

R#	CATE-GORY	COMMENTS ON SMC 5(b)	STAFF COMMENT
		The framework should acknowledge these kinds of asset exist and have a powerful effect on government finances. However, in line with our discussion on Specific Matter for Comment 4 above, we suggest that for reasons of practicality these should not in general be recognised in financial statements.	116.
018	B	The Joint Accounting Bodies have not identified any additional characteristics or other relevant issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of an asset.	
019	B	No comment.	
020	A	As we have noted in our cover letter, we would encourage the IPSASB to consider the unique public sector operating environment and the needs of primary users of the financial statements when considering the concept of assets. Governments have a focus on providing service to the public in an efficient and economical manner and the methods to recognize and measure assets on the financial statements must reflect this situation. The use of financial statements to monitor balanced budget legislation and as an accountability document in the public sector context must be respected in the development of the Conceptual Framework.	
021	B	We have not identified any additional characteristics or other relevant issues.	
022	C	There is a concommitant power to tax or levy with regard to maintaining the asset or the rights to the same. I agree.	
023	A	Consider possible linkages with the Exposure Draft, "Key Characteristics of the Public Sector", approved at the March 2011 meeting. For example, consider the effect of regulation and whether this government power has the ability to create assets or liabilities for the government. We don't believe it does but feel that explicit cross referencing with the Key Characteristics ED would strengthen the substance of the framework as one designed for the public sector. Perhaps each document issued could have a table that indicates the implications of the key characteristics for the principles set out in the document. This summary table could then be used when all of the pieces of the framework are put together to develop a matrix that outlines all of the implications of the key characteristics of the public sector.	Linkages with this ED will be considered further when responses are analysed. Referred to in CF Memorandum, paragraph 116.
024	B	No other relevant issues need to be considered.	
025	B	Subject to the comment above, the AASB has not identified any additional characteristics or other relevant issues. The AASB does however recommend that the definitions of assets and liabilities be symmetrical, or at least that any asymmetry is explained.	See Staff comments on SMC 5(a)

R#	CATE-GORY	COMMENTS ON SMC 5(b)	STAFF COMMENT
026	A	Because of its sovereign missions and its missions of economic and social regulator, the assets of the central government and the other public entities contain specific assets appropriate for the fulfillment of these missions and for which there are inevitably no references to market such as in the trade sector, that requires the implementation of appropriate valuation methods.	Framework-CP3 has highlighted the significance of specialized assets in the public sector.
027	B	No.	
028	B	In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of assets.	
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC has not identified other relevant issues that the IPSASB needs to consider in determining the concept of assets.	
031	A	Governments and other public sector entities often have stewardship over a variety of natural and other resources such as conservation areas, fauna, flora and marine life. In developing the definition of an asset, it would be useful if these types of resources could be considered in developing the definitions of assets.	Referred to in CF Memorandum, paragraph 116.
032	D	*Did not comment on this SMC.*	
033	C	I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot included these questions, isn´t responsibility of IPSASB-IFAC.	
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

SMC 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.

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ALL	**5 (15%)**
(B) ONLY SOME	**18 (55%)**
(C) NO CLEAR VIEW EXPRESSED	**10 (30%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**33 (100%)**
(D) DID NOT COMMENT	**2**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
001	B	ACAG agrees with the definition of a liability including elements (i), (ii) and (iii). ACAG does not support the inclusion of (iv) and agrees with the rights approach discussed in paragraph 3.20. *Public Private Partnerships (PPPs)* Consistent with the views outlined in 2(a), ACAG supports a risk and rewards approach to asset recognition. In the case of PPPs, the asset(s) constructed represent a bundle of different rights which each party obtains a portion of those rights under the arrangement. Inclusion of (iv) in the liability definition would result in Government recognising the entire PPP asset and a corresponding liability to make it available to the private enterprise for the duration of the arrangement. However, under a risk and rewards approach, the Government entity would only recognise an asset equal to the benefits it retains, such as the residual value of the assets constructed under the PPP. The latter accounting treatment more closely reflects the economic reality of the transaction as the Government only recognises an amount equal to the benefits it obtains in the arrangement.	Staff notes views on PPPs. Although these are arguably standards-level considerations the example should be explored further as ED is developed.
002	A	Any of the above kinds of obligations should be within the definition of a liability.	

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		We have the following additional comments on this section of the Consultation Paper (paragraphs 3.6-3.20). • We do not agree with the view expressed in paragraph 3.8 that a liability may exist where it is necessary to expend resources to 'discharge an organizational need'. Such expenditure is incurred to enhance the efficiency of future operations, and not to discharge a liability. (Of course, if an entity's assets are not fit for purpose they may be impaired, but that does not justify the recognition of a liability.) • We agree that unconditional obligations include 'stand ready' obligations whereby an entity is required to provide resources if a future uncertain event occurs. We do not, however, understand how these differ from the conditional obligations addressed in paragraph 3.12. • We do not believe that executory contracts usually give rise to an unconditional obligation to pay the contractually agreed amount. Under such contracts the obligation is to exchange, and there is a liability only if, and to the extent that, the exchange is likely to be unfavourable (in other words, the contract is onerous). In many cases, there is not even an obligation to exchange: more precisely the obligation is EITHER to exchange OR to compensate the other party for any losses that it will suffer (having taken reasonable steps to mitigate those losses) as a result of the entity's failure to exchange. • Consistently with our view on the definition of assets, we believe there is considerable conceptual merit in the accounting described for a service concession arrangement in paragraph 3.20, i.e. the entity recognises that the effect of the transaction is to convey a part of its assets to the private sector entity. We note that this is one of the approaches to lessor accounting proposed in the IASB's recent exposure draft on leases.	Issues arising out of these four types of arrangements will have to be assessed. In particular Staff agrees that the discussion of 'stand ready' obligations and 'conditional' obligations and the distinction between these two sorts of obligations needs clarification. Complexities with regard to executory contracts have been raised by other respondents. They will have to be considered further..
003	C	One of the characteristics of a liability is the UNCONDITIONAL OBLIGATIONS, with the scope of the present paragraphs. (Paragraph Reference3.11 and 3.12)	
004	B	NAO is of the opinion that the definition of liability covers all the types of obligations except for the obligations to provide access to or forego future resources. Obligations to provide access in many cases would lead to the derecognition of assets rather than the incurrence of an obligation (liability) to supply those rights to another party.	
005	B	We believe that the definition of a liability should be limited to the obligations identified in (i) and (ii). The obligations to transfer benefits and the provision of goods and services in the future	Noted.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		that arise from a past event may give rise to measurable liabilities to governments. Unconditional obligations would give rise to liabilities once the specified events (for example, flood or export receivable insurance obligations) occur and the amount can be reasonably estimated. On the other hand, the performance obligations and obligations to provide access to or forego future resources represent a broad range of obligations that a government may encompass under certain circumstances. However, these obligations would not give rise to liabilities due to the absence of a past event. This aligns with the accountability goals of assessing the current government performance. Governments by their nature have responsibilities to provide ongoing services to citizens, some of which is required through internal or external legislation. The scope and nature of these services are determined by future decision makers and are paid for from future revenue streams which may or may not already exist. As such, we feel that service delivery should be expensed as incurred, but the proposed concept of performance obligation (iii) could require governments to recognize related liabilities before the service is provided. In addition, the idea of including obligations to provide access to or to forego future resources in option (iv) would compromise inter-period equity and violate a fundamental need for the public sector to report on the extent to which current period revenues cover current period expenses. Governments are accountable to address the needs of the public and are held accountable through elections. However, it is at the government's discretion when and how they fulfill their accountability. As a result, accounting should not override the discretion of government and the legal authority of the jurisdiction. Performance obligations and obligations to provide access or to forego future resources that override the legal discretion available to government is inappropriate, as it is attempting to override the accountability relationship that has been established with the public and would misalign GPFS in being an accountability report.	
006	C	In our opinion the definition of a liability should cover performance obligations and other obligations if a transaction or event have occurred that makes eligible the right to receive a grant and there is no realistic alternative to avoid the obligation, e.g. if a dentist has the right to receive an amount for an examination that has been done according to contract. Obligations assignable to social benefits should be liabilities only if the entity has not fulfilled a legislative demand.	To be considered further.
007	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	Noted view that IPSASB should adopt same approach as IASB.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		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.	
008	B	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.	Noted. Staff accepts the view, also highlighted by Respondent 30 that the identification of unconditional stand ready obligations can be problematic in public sector.
009	A	To make the definition more comprehensive and wide all the above type of obligations may be included.	See Memorandum, paragraphs 45-47.
010	D	*Did not comment on this SMC.*	
011	B	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.	Noted. Staff considers this over-restrictive.

012	B	For (i), Yes.
		For (ii), No. Because the wording is contingent liabilities. If however the question were supplemented with "past event", the answer would be Yes.
		For (iii), Yes.
		For (iv), No. The considerations in connection with rents seem to go far too far	

013	B	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).	

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
014	B	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 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.	Referred to in Memorandum, paragraph 46.
015	B	We believe that the definition of a liability should cover "obligations to transfer benefits", "unconditional obligations" and "performance obligations". However, we would welcome it if you were to focus on specific matter for comment 8 and our opinion that there is always the need for a past event to have occurred. Applying the same logic, "unconditional obligations to stand ready to insure against loss (risk protection)" cannot be considered as liabilities. With regard to the asset definition, we believe that this is a well balanced definition (see specific matter for comment 1). In our opinion, the definition of a liability should also cover "obligations to provide access to or	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		forego future resources". With regard to the liability definition we assume again that a past event must have occurred (see specific matter for comment 8). Under the premise that a performance obligation to provide access to or forego future resources demonstrates the existence of an adequate past event, it is appropriate to define this type of obligation as a liability.	
016	D	*Did not comment on this SMC.*	
017	B	In answering this question, CIPFA has been careful not to assume a fully worked out definition of a public sector liability – this is a matter on which although IPSASB and others have consulted a number of times, and an internationally acceptable consensus has yet to emerge. **(A)** CIPFA considers that elements (i), (ii), and (iii) should be included in the definition of a liability. It is not clear to us how item (iv) differs from item (i) and we are not sure that any items not encompassed by (i) should be deemed to be liabilities.	To be considered further.
018	B	It is the view of the Joint Accounting Bodies that the Framework definition of a liability needs to be general and broad – that is, there is an obligation to transfer benefits to another party until it is settled and that the entity has no realistic alternative to avoid the obligation. To the extent that an entity has no realistic alternative to avoid the obligation, we agree that the types of obligations described in (a)(i) to (iii) are liabilities. Obligations to provide access to future resources are different from obligations to forgo future resources. We agree that an obligation to provide access is a liability, if the entity has no realistic alternative to avoid the obligation. However, we do not agree that an obligation to forgo future resources is a liability as the circumstance as described may lack an essential characteristic of a liability – an obligation to transfer benefits to another party until settled.	To be considered further.
019	B	Agree on (i). For (ii), please refer to Task Force's comments on uncertainty and absence of sufficient guidance on recognition and measurement of unconditional rights to receive resources provided in the Specific matter for comment 1, as this type of obligation (ii) is a mirror concept of the said benefit and presents the same complications. The Task Force requests further elaboration on this should IPSASB wish to continue to consider using an unconditional obligation to define a liability. Difference between (i) and (iii) is not clearly defined. A performance obligation is defined as an obligation in an agreement between the government/other public sector entity and another party to transfer a resource (or provide a service) to the other party (para. 3.15). It appears that performance obligation is therefore a type of obligation described in (i) above, i.e. an obligation	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		to transfer benefits and provide goods and services. Hence Task Force does not consider it useful to provide further comments on applicability of obligation (iii) to the definition of a liability at this stage and requests further clarification on this in the future draft Exposure Draft. Applicability of an obligation (iv) to and its occurrence in transactions of public sector entities other than government appears to be very limited. Task Force therefore recommends omitting reference to this type of obligation in defining a liability, as definitions should be well balanced and applicable to majority of preparers of GPFSs. Should there be a need to discuss this type of obligations in more detail, it can be done in a more specific format to target interested parties, possibly within the framework of the Conceptual Framework project.	
020	B	The liability definition should encompass the obligations identified in (i) and (ii), with the understanding that requirement for a past event is necessary as discussed later. We have concerns with including obligations under (iii) and (iv). In particular, with including performance obligations that may be imposed through a statutory requirement or through legislation, since governments, by their nature, have responsibilities to provide ongoing services to citizens through legislation which could be captured within the proposed concept of performance obligations. In addition, the idea of including obligations to provide access to, or forego, future resources would artificially inflate assets and liabilities of governments since an asset and a corresponding liability would be recorded. This concept of an obligation to be provided over a period of time may be better addressed through deferrals and revenue recognition.	To be considered further.
021	C	Consistent with our comments on specific matter for comment 4, we consider that liabilities should be defined generically and should not be limited to items that would be recognised in financial statements. We consider that the critical question is whether there is a present obligation. To the extent that an entity has no realistic alternative to avoid an outflow of economic benefits in settlement of the types of obligations described in (a)(i) to (iii), we agree that these types of obligations are liabilities. However, we consider that if the words "present obligation" are used in the definition of a liability, there is no need to refer to the ability, or inability, of an entity to avoid the obligation. We are unable to provide a definite answer to 6 (a)(iv) as we are not sure what is being proposed. We agree that it is appropriate for the framework project to consider whether certain future obligations meet the definition of a liability. We consider that only present obligations should meet the definition of a liability and that any application of the definition of a liability to obligations to provide access for example, should focus on whether there is a present obligation.	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
022	C	The benefit qualifications are creatures of statute. Benefits are or may be matched against contributions by employers, employees or even small business owners.	
023	B	The definition of a liability should definitely include obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future, and performance obligations. The other two suggested types of obligations are more problematic and their inclusion in the scope of a public sector definition of a liability may not be appropriate. We share some of the concerns raised in the CP regarding their inclusion. For the reasons set out in paragraphs 3.18-3.20, we do not feel that there is theoretical support for the definition of a liability to cover obligations to provide access to or forego future resources. In the example cited, it would seem that the government should recognize revenue for the lump sum sale of the right to charge a toll for use of the road. We are also concerned with the notion that the liability definition could cover unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection). We believe that the last sentence of paragraph 3.14 is correct to state that in the public sector in particular it may be difficult to draw a distinction between a conditional obligation and a stand-ready unconditional obligation.	To be considered further.
024	C	We believe a liability is incurred for all obligations that have an enforceable claim as long as they are "more likely than not" to occur. This includes unliquidated obligations as well as lawsuits.	To be considered further.
025	A	Consistent with its comments on Specific Matter for Comment 4, the AASB supports a broad definition of a liability, whilst noting that some types of liabilities may not meet the recognition criteria. A broad definition of a liability could lead to some hotly debated public-sector-specific 'obligations', such as social benefit promises, being identified as liabilities. In relation to Specific Matter for Comment 6(a), the AASB agrees that the types of obligations described in (a)(i) to (iv) are liabilities. The AASB is concerned that (a)(iv) includes two types of obligations that should be considered separately.	To be considered further.
026	C	The DGFiP considers that the definition of a liability has to cover the obligation to transfer benefits, defined as cash flows or other assets. On the other hand, a liability can never be likened to an obligation to supply goods and services in the future, what would include, for the public entities, the implicit obligations such as the right to education, to security or also to health, which do not correspond to the definition of a liability. Indeed, the public sector has to supply goods, services and transfers to the community during the future periods only if :	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		- it has the financing which is substantially supplied by the community through taxes during these same future periods; and - the presumed beneficiaries of these goods, services and transfers satisfy the attribution criteria for these. The missions of the public sector joining a logic of perpetuity, a link is presumed between the delivery of these services by the public sector entities and their financing by the tax. From then on, the DGFiP considers that no liability has to be recorded to account for the obligation to supply the goods and the services relating to future periods. The identification of a liability also requires the existence of an obligation stemming from a past event which can be materialized by an act of assignment. Consequently, the DGFiP removes the implicit obligations from the scope of the liabilities. The DGFiP also considers that the performance obligation does not enter into the scope of the liabilities. The obligation to provide access or to give up a future resource does not answer, according to the DGFiP, the definition of a liability which is inevitably materialized by an outflow of resources, as specified in IPSAS 19 "Provisions, contingent liabilities and contingent assets" § 31: *"For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation."*	
027	C	In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorization model. Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future. Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable. With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party. By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		as the "beneficiary" of the said obligation.	
028	A	In our view, the definition of a liability should cover each of the four types of obligation outlined above.	To be considered further.
029	C	<u>Definition of a Liability</u> As noted above, the province believes that the objective of government financial statements is accountability to the public for the resources made available to government and the uses to which those resources were put. The province believes that an enforceable claim based on a past event needs to exist to establish a liability and recognizes that although an approved budget and appropriations are prerequisites to entering into a contract which establishes a liability the approval of an appropriation does not constitute a liability. The province does support the concept of constructive obligations particularly in relation to transfers received to fund programs to be implemented in future fiscal periods. The province does not support the recording of all future liabilities for compensation of emergency relief it may provide to residents for events that have not yet occurred. This position is held regardless of whether there is legislation or other public documentation which specifies the terms and conditions that must be met to receive assistance or whether there is no specific legislation but there is a historical pattern of assistance that has been provided in the past for similar types of events. The province is concerned about suggestions to mark to market long-term liabilities or debt. There are two grounds for this concern. First, the province does not support the application of capital maintenance principles which focus on the change in the net "value" of net assets/liabilities between two fiscal year ends as being a measure of annual income/performance. Secondly, fluctuations in the market value of long-term debt may reflect changes in the market interest rate for all issues by all jurisdictions within that class of debt and have no reflection on the willingness, possibility or probability of the province paying its own debt at face value. Changes in this rate may result from sources entirely extraneous to the province, such as central bank intervention in the market. Unless the province has purchased and retired the debt, or a portion thereof, no event has occurred that would prevent the province from paying the coupon interest rate on each required payment date and the full face value of the debt on maturity. In the discussion of performance obligations, the example you have provided regarding a P3 agreement for a road where the private sector constructs a road that the province would own and the contractor receives a right to the tolls against a lump sum payment from the private sector contractor and an agreement to maintain the road would result in a complex set of entries. The province would record the fixed price contract (included within the overall project agreement) as	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		the cost of the road with a corresponding liability, however, based on your example it would appear that the deferred revenue would be equal to the liability for the construction contract (which does not appear to have to be paid) plus the lump sum payment. The maintenance contact might be recorded in the notes as a contractual obligation and would appear on a net present value basis to be equal to the liability for the construction contract. The province would be very concerned with the suggested approach of following the treatment of the securitization of accounts receivable which left only the net remaining rights or obligations as assets or liabilities. The recent financial crisis should be sufficient evidence to discourage such an approach; therefore, recording all assets, liabilities, rights and obligations on a gross basis is more likely to have each of them managed and accounted for in a fully transparent manner.	
030	B	HoTARAC recommends the Framework begin by defining a liability and suggests the definition should include: • an obligation, which is a duty or responsibility to act or perform in a specific way; • a future sacrifice of the entity's resources or assets is required; • no realistic alternative to avoid the obligation exists; and • a present obligation (an unconditional obligation) must exist at reporting date. Accordingly, HoTARAC agrees obligations listed in (i) and (iii) above fall with the ambit of the suggested definition. (a)(ii) Unconditional (stand ready) Obligations HoTARAC recommends care be exercised in the recognition of unconditional stand-ready obligations as it is not always apparent when they exist and whether they are a present liability (e.g. HoTARAC questions the reporting of a "defence" liability where there is an inherent "stand ready" obligation under international law to defend the country against outside attack). HoTARAC notes that stand-ready obligations may potentially require certain contingent liabilities and other obligations previously considered as executory contract obligations to be recognised as liabilities. HoTARAC considers that unconditional stand-ready obligations may create challenges for the public sector, in particular in drawing the distinction between a conditional obligation and a stand-ready unconditional obligation as commented in paragraph 3.14. Accordingly, HoTARAC encourages the IPSASB to provide clear principles and further guidance in IPSAS to assist public sector entities in dealing with these issues in circumstances such as: • government grants, as outlined in paragraph 3.18 • service concession arrangements	Point about unconditional stand-ready obligations noted and to be considered further along with other issues.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		• international treaties and obligations under international law such as military commitments • other non-exchange transactions, such as donations and government assistances for events such as natural disasters and epidemics. • Determining whether time is a condition. (a)(iv) Obligation to provide access to or forego future resources In relation to the notion of obligations to provide access to or forego future resources, HoTARAC noted that there is some question as to whether providing a right of access entails a transfer of resources for the obligation to meet the definition of a liability (refer paragraph 3.19). HoTARAC's view is that obligations to provide access may be indicative of the existence of a liability, but should not be the defining criteria. There is a view that to forego future resources does not require an outflow of the entity resources to settle the obligation and thus should not be identified as a liability. Alternatively, to forego future resources could be viewed as comprising two components: a claim against the entity's future resources and the extinguishment of the obligation by the entity releasing/forgoing future resources. Other comments: In relation to the notion of performance obligations, while HoTARAC supports its inclusion as liabilities, further clarification is sought regarding the recognition criteria to be applied. For example, where a contract includes multiple performance obligations, would this lead to the recognition of multiple liabilities, all subject to individual recognition and measurement criteria?	
031	B	We agree that the following obligations should be considered in formulating the liability definition: A. Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future. B. Unconditional obligations. C. Performance obligations We suggest that the wording proposed for assets regarding "net cash inflows" and "service potential" should be replicated in the liability definition. Obligations to provide access to or forego future resources are not separate obligations that require consideration. Obligations to provide access or forego future resources could be considered as a type of obligation that arises from the three liabilities listed above.	To be considered further.
032	B	The definition of a liability should include (i) obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future, but it should not include (ii) unconditional obligations, including unconditional obligations to stand ready to insure against	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		loss (risk protection).	
033	C	This comments is similar for Assets (comments 1) I think that the concepts for used for Assets will be used for Liabilities included observations, used for transparency, clarified of used IPSASB, laws, regulations and jurisdictions. Kearney et al (2006, 108) comments that FASAB and Office Management and Budget define a federal liability as a probable and measurable future outflow of resources arising from past transactions or events. The liabilities grouping of accounts include an enormity of transactions and events, such as accounts payables, end-of-period accrued liabilities, federal commitments and guarantees legally assumed or entered into, contingencies, damages from litigious proceedings, and so on." ICAEW (2011, 22) defines liability as: "a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of an entity´s resources."	To be considered further.
034	B	In Nova Scotia's view the definition of a liability should not cover obligations such as "unconditional obligations to stand ready to insure against loss", "performance obligations" or "obligations to provide access to or forego future resources". It is our position that the first item covers all appropriate liabilities and leaves sufficient room for contingent liabilities where a government has made a specific commitment that could be based on a future event's occurrence.	To be considered further.
035	C	Obligations are not liabilities unless they have all three essential characteristics: 1. They embody a duty or responsibility to others leaving the government little or no discretion to avoid settlement of the obligation; 2. The settlement of the obligation entails the transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on the occurrence of a specified event, or on demand; and 3. The transactions obligating the government have already occurred. **1) The Substance of a Liability** We agree that the existence of an obligation is a required characteristic to define a liability. An obligation is a duty or responsibility to act or perform in a particular way to another party. The obligation to the other party requires settlement through the future transfer of assets, provision of goods and services or other form of economic settlement. While all liabilities are obligations, not all obligations are liabilities. An obligation to other	To be considered further.

R#	CATE-GORY	COMMENTS ON SMC 6(a)	STAFF COMMENT
		parties, in and of itself, is not a liability. The Consultation Paper distinguished between unconditional and conditional obligations. Conditional obligations are not viewed as liabilities at the reporting date because the condition obligating the government has not occurred. The Public Sector Accounting Board (PSAB) in Canada uses the term contingent liability to describe a conditional obligation. Contingent liabilities are not recorded as a liability until the condition or confirming event occurs, or is viewed as likely to occur. The Consultation Paper describes unconditional obligations as having uncertainty as to whether the obligation will even have to be settled, but no uncertainty as to existence of the obligation. Our view is that if the obligation does not embody the future sacrifice of assets then if fails to meet an essential characteristic of a liability. If the settlement of the obligation is uncertain, because it is dependent on a future event, then it is a conditional obligation or contingent liability. Guarantees against losses for floods, crop failures, export receivables, etc. are described as stand-ready obligations. We view a stand-ready obligation to compensate a future loss as a conditional obligation that should be accrued as a liability only when the insurable loss or other necessary conditions occurs, or is viewed as likely to occur. A performance obligation is an obligation in an agreement between the government and another party to transfer assets or provide a service to the other party. Agreements by the government to provide access to assets to other parties or to forgo future assets are also performance obligations. The PSAB refers to performance obligations as contractual obligations or commitments. We agree that performance obligations are obligations since they represent a duty or responsibility to others and embody the future sacrifice of assets. However to be recorded as a liability they have to be present obligations at the reporting date. Commitments to future expenditures would not be a liability since the government still has realistic alternatives to change or avoid the obligation through its own actions.	

SMC 6(b):Is the requirement for a settlement date an essential characteristic of a liability?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**3 (10%)**
(B) NO	**25 (83%)**
(C) NO CLEAR VIEW EXPRESSED	**2 (7%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30 (100%)**
(D) DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 6(b)	STAFF COMMENT
001	B	ACAG does not consider settlement date to be an essential characteristic of a liability. Governments will often be subject to obligations for which they have little alternative but to settle, such as remediation work after a natural disaster (where strong social expectations exist). In these cases, a specific settlement date may not be known, however, at reporting date the Government is still liable to outlay economic resources to remediate any damage caused.	See Memorandum, paragraphs 48-51
002	B	A settlement date is not an essential characteristic of a liability. Uncertainty about the time at which an obligation may be settled, or the ability of the entity to defer settlement, may affect the measurement of a liability, but not its existence.	See Memorandum, paragraphs 48-51
003	B	Including the settlement date can NOT be considered for the determination, as it is contrary to the essential characteristic of an Unconditional Obligation. (Paragraph Reference 3.21)	See Memorandum, paragraphs 48-51
004	A	Yes, NAO is of the opinion that a settlement date is an essential characteristic of a liability since it denotes that the liability is really due.	Referred to in Memorandum, paragraph 49. Staff consider that this would restrict obligations recognized as liabilities and would risk faithful representation of the financial position of an entity.
005	B	The requirement of a settlement date should not be considered an essential characteristic of a liability. Timing of settlement does not determine whether an obligation to a government exists at the financial statement date. When the obligation becomes unavoidable as a result of law or a government decision there may not be an agreed time to settle the obligation. A settlement date is	See Memorandum, paragraphs 48-51.

R#	CATE-GORY	COMMENTS ON SMC 6(b)	STAFF COMMENT
		only an important factor in determining measurement of the obligation and appropriate discounting methodologies.	
006	D	*Did not comment on this SMC.*	
007	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.	See Memorandum, paragraphs 48-51
008	D	*Did not comment on this SMC.*	
009	B	No the requirement of settlement date should not be an essential characteristic of a liability.	See Memorandum, paragraphs 48-51
010	B	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.	Staff notes the view that a settlement date might influence measurement and accepts the point that this issue is unlikely to raise specific public sector considerations.
011	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.	See Memorandum, paragraphs 48-51
012	B	No.	
013	B	No.	
014	B	The CNCP considers that **a settlement date, which helps to better identify a liability, is nevertheless not an essential characteristic**.	See Memorandum, paragraphs 48-51
015	B	We think that a settlement date is not an essential requirement for a liability. Alternatively, we support the view expressed in paragraph 3.22 that a settlement date with a definition that includes "on the occurrence of a specified future event" might be appropriate too.	Support for inclusion of a reference to "on the occurrence of a specified future event" noted. Although, as noted by Respondent, this was highlighted in Framework-CP2 , Staff question whether such an inclusion might increase ambiguity.

R#	CATE-GORY	COMMENTS ON SMC 6(b)	STAFF COMMENT
016	D	*Did not comment on this SMC.*	
017	B	No. Requiring a settlement date would exclude, for example, important and decision useful information relating to expected payments of uncertain timing.	Agree.
018	B	The Joint Accounting Bodies believe a settlement date is not an essential characteristic of a liability. However, we acknowledge that a settlement date may be useful as an indicator that a liability exists in the context of a contractual arrangement, but it is not always relevant or necessary.	Referred to in Memorandum, paragraph 49.
019	B	The Task Force has no reservations about the proposed reference to "the occurrence of a specified future event" rather then to settlement date in identifying a liability (para. 3.22), provided that unspecified settlement date should not be viewed as a characteristic of a liability.	See comment on Respondent 15.
020	B	The requirement for a settlement date should not be considered an essential characteristic of a liability. Timing of settlement does not determine whether an obligation to a government exists at the financial statement date; therefore, it does not support the existence of an obligation. It is an important factor only when considering measurement of the obligation and appropriate discounting methodologies.	Agree.
021	B	In relation to specific matter for comment 6(b) we consider that a particular settlement date is not an essential characteristic of a liability. Settlement date may be relevant in the context of a contract, but it is not always relevant or necessary. However, existence of a settlement date may be an important indicator of a liability because if an entity has complete discretion to settle an obligation at any time in the future, it effectively can choose whether or not to settle the obligation. In such circumstances, the obligation is unlikely to be a liability.	Staff does not think that the absence of a settlement date indicates that an entity has complete discretion to settle at any time in the future.
022	C	There are obligations to transfer benefits in classic liabilities at a settlement date which is known or easily determinable. I agree.	Staff acknowledges that many liabilities do contain settlement dates.
023	A	Yes – the requirement for a settlement date should absolutely be an essential characteristic of a liability. One of the aspects that distinguish a liability from equity is the requirement for a settlement date. We feel that inclusion of the phrase "settlement on the occurrence of a specified future event" in the definition of a liability would address those situations, such as lawsuits, where the settlement date is not yet known.	Referred to in CF Memorandum, paragraph 49.
024	C	Yes, but the settlement date may be an event such as the death of a retiree as long as it an enforceable claim.	Noted view that settlement might be stated in terms of event rather than calendar

R#	CATE-GORY	COMMENTS ON SMC 6(b)	STAFF COMMENT
			date.
025	B	In relation to Specific Matter for Comment 6(b), the AASB does not consider that a particular settlement date is an essential characteristic of a liability. Although a settlement date may be relevant in the context of a contract, it is not always necessary.	Notable that in public sector many obligations are likely to be non-contractual.
026	B	The DGFiP considers that the settlement date is not an essential characteristic of the definition of a liability.	See Memorandum, paragraphs 48-51.
027	B	Specification of the due date is' not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).	See Memorandum, paragraphs 48-51.
028	B	In our view, a settlement date is not an essential characteristic of a liability.	See Memorandum, paragraphs 48-51.
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC is of the view that settlement date should not be an essential characteristic of a liability. The essential characteristic should be whether the entity has a present obligation or another entity has an unconditional claim on the entity's resources as at reporting date. Requiring a settlement date as an essential characteristic would exclude obligations that clearly exist but with an uncertain settlement date, such as lawsuits, insurance liability, long service leave provisions, etc. HoTARAC notes that paragraph 3.22 suggested using the criteria "on the occurrence of a specified future event", but this would further blur the distinction between conditional obligations and stand-ready obligations. In addition a perpetual loan with no settlement date exists in the public sector which carries no ownership connotations.	Agree, esp that requiring a settlement date would exclude obligations that otherwise meet the liability definition.
031	B	Reference to a "settlement date" is not an essential characteristic of a liability. Where a settlement date is not specified, this may add complexities to the measurement of the liability, but would not mean that an obligation does not exist. The key feature of a liability is that an obligation exists to pay/transfer economic benefits or service potential to another party.	Agree, including measurement implications.
032	B	In addition, with regard to the requirement for a settlement date to be eligible as liabilities, some members raised an argument that there are some payment obligations of public sector entities, whose settlement day is not certain, even if those obligations are determined by law.	Noted.
033	D	*Did not comment on this SMC.*	
034	B	A specific settlement date is not viewed as being essential however it seems necessary to have a time frame associated with the settlement of a liability. It must be known that there is a claim and that there is a likely settlement in the future. This date does not need to be in the near term	

R#	CATE-GORY	COMMENTS ON SMC 6(b)	STAFF COMMENT
		(i.e. one year) as many issues may take some time to reach final agreement (i.e. lawsuit settlement, or flood damage) however it must be known that there is a process being followed that does have a logical end date.	
035	A	We view a settlement date as a required characteristic of a liability. If there is no settlement date then the obligation can't be a liability since there will be no future sacrifice of economic benefits. In most cases the settlement date is on demand or on the occurrence of a specified event. The government does not need to determine the exact date the liability will be settled. The determination of the specified event and its eventual occurrence is sufficient to be recognized as a settlement date. For example governments who provide severance benefits to their employees do not know the exact date the employee will leave. But there is no uncertainty that one day the employee will end his employment with the government and the obligation will have to be settled.	Referred to in Memorandum, paragraph 49.

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES: AN ESSENTIAL CHARACTERISTIC	**5 (18%)**
(B) NO: NOT AN ESSENTIAL CHARACTERISTIC	**21 (75%)**
(C)NO CLEAR VIEW EXPRESSED	**2 (7%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 7(a)	STAFF COMMENT
001	B	ACAG does not consider the ability to identify specific parties as an essential characteristic.	Agree, See Memorandum, paragraphs 52-55
002	B	We agree that the definition of a liability should make clear that the entity cannot both be both the party that is obligated and the party to which settlement will be made. Therefore, there is always an external party to whom a liability is owed. However, it is not always the case that a specific external party can be identified. The point is best addressed in supplementary guidance rather than in the definition of a liability.	Agree that there must be an external party.
003	D	*Did not comment on this SMC.*	
004	A	NAO believes that the ability to identify a specific party (parties) outside the reporting entity to whom the entity is obligated is to be considered an essential definition of a liability. This is due to the fact that a liability can only materialize as long as the identity of the other party is known.	Referred to in Memorandum, paragraph 53.
005	B	An essential characteristic of a liability should require the ability to identify an outside party to whom the obligation exists; however, it should not be necessary to identify a specific party or parties to whom the obligation exist. There are situations as noted in the consultation paper where governments will have an obligation at the financial statement date, but may not be able to identify the specific parties to whom the obligation exists. In these situations, a liability should be recorded by the government in respect of these obligations even in the absence of an identified outside party.	Agree. See Respondent 2
006	D	*Did not comment on this SMC.*	
007	B	NSW Treasury does not consider such ability an essential characteristic in defining a liability. It	Noted.

R#	CATE-GORY	COMMENTS ON SMC 7(a)	STAFF COMMENT
		could be part of the supplementary discussion that is not necessary to identify specific parties.	
008	D	*Did not comment on this SMC.*	
009	A	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.	Referred to CF Memorandum, paragraph 53.
010	B	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.	Agree. Accept that identification of a specific external party may be impossible.
011	B	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.	Noted. Example is helpful. Noted.
012	B	No, no "*essential characteristic*". Example: Provision for coins in circulation in Federation	Staff notes example of coins in circulation. IPSASB has yet to examine this public sector specific standards-level issue.
013	B	We do not consider the ability to identify specific parties as an essential characteristic.	Agree, See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 7(a)	STAFF COMMENT
			paragraphs 52-55
014	B	**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.	Agree, See Memorandum, paragraphs 52-55
015	B	We support the view that the ability to identify a specific party outside the reporting entity to whom the entity is obligated should be part of the supplementary discussion. Identifying a specific party seems to be difficult in many cases, e.g., if there is a greater number of people.	Agree, See Memorandum, paragraphs 52-55.
016	D	*Did not comment on this SMC.*	
017	B	In answering this question, CIPFA has again been careful not to assume a fully worked out definition of a public sector liability. (a) We do not consider the ability to identify specific parties as an essential characteristic, although liabilities will generally relate to parties outside the reporting entity which can be identified in general terms.	Staff considers that liabilities must relate to parties outside the reporting entity.
018	B	The Joint Accounting Bodies do not consider 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. Although we consider an essential characteristic of a liability is an obligation to transfer benefits to another party until settled, we do not think it essential to identify the other party.	Agree, See Memorandum, paragraphs 52-55.
019	B	The Task Force is of the view that the inability to identify a specific party outside the reporting entity should not prevent the latter from recognizing a liability in its GPFSs if an item meets all relevant recognition criteria.	Agree, See Memorandum, paragraphs 52-55.
020	B	An essential characteristic of a liability should require the ability to identify an outside party to whom the obligation exists; however, it should not be necessary to identify a specific party or parties to whom the obligation exists. There are situations as noted in the consultation paper where governments will have an obligation at the financial statement date, but may not be able to identify the specific parties to whom the obligation exists, but a class of persons entitled to the obligation may be known. In these situations, a liability should be recorded by the government in respect of these obligations even without having identified the specific person/entity given that it has been acknowledged that there is a liability to a third party.	Agree, See Memorandum, paragraphs 52-55.
021	B	In relation to 7(a) we do not consider that the ability to identify a specific party(ies) outside the	Agree, See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 7(a)	STAFF COMMENT
		reporting entity to whom the entity is obligated should be considered an essential characteristic in defining a liability. The definition of a liability should require that there be an outflow of resources (from which an entity cannot realistically withdraw) but we do not consider that it is essential to identify the external party(ies) that will receive that outflow of resources.	paragraphs 52-55.
022	D	*Did not comment on this SMC.*	
023	B	Yes. The obligation to sacrifice economic benefits must be to a third party. It is necessary that the entity or individual exist at the financial statement date. It is not necessary, however, for the public sector entity to know the specific identity of the party or parties involved, as the obligation may be to the public at large or to a specific group of recipients.	Agree, See Memorandum, paragraphs 52-55
024	A	We believe that a specific party outside of the reporting entity needs to be identified for it to be an enforceable claim.	Disagree that identification of a specific party is an essential characteristic.
025	B	As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element's definition. In relation to Specific Matter for Comment 7(a), the AASB is of the view that the definition of a liability should not require the identification of a specific party or parties outside the reporting entity to whom the entity is obligated, for the reason given in the last sentence of paragraph 3.25.	Noted view that factors associating an element with an entity are recognition criteria rather than integral to the definition.
026	B	The DGFiP considers that the possibility of identifying an individualized third party beneficiary external to the entity, does not constitute an essential element to define a liability.	Agree, See Memorandum, paragraphs 52-55.
027	A	Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.	Referred to in CF Memorandum, paragraph 53.
028	B	In our view, being able to identify a specific party outside the reporting entity to whom the reporting entity is obligated is not an essential characteristic of a liability.	Agree, See Memorandum, paragraphs 52-55.
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC does not consider the identification of a counter party essential to the definition of a liability. HoTARAC agrees that for a liability to exist, the obligation must be to an external party to the reporting entity. However, HoTARAC considers the ability to identify a specific party(ies) is only an indicator of an entity's obligation, and should not be part of the essential characteristics in defining a liability. For example, in some cases, a liability may be recognised without the need	Noted esp. Points that (a) identification of specific party may be an indicator and (b) that individuals with ownership type interests acting in their capacity as

R#	CATE-GORY	COMMENTS ON SMC 7(a)	STAFF COMMENT
		to identify a specific counter party and it is common for governments to have obligations to the general public rather than to specific parties (e.g. environmental decontamination of sites). HoTARAC therefore supports including the counter party notion as part of the supplementary discussion. HoTARAC supports the statements in paragraph 3.26 that "individuals with ownership type interests acting in their capacity as owners are not considered "other parties"" and that "claims to an entity's residual interest that are capable of settlement only as a result of actions by the entity, are not liabilities of the entity.·	owners are not considered "other parties"".
031	B	An entity cannot have an obligation to itself. Obligations only arise with parties external to the reporting entity as such parties would have the ability to require the reporting entity to fulfill its obligation. It is however not necessary that the exact identity of the third parties be known for an obligation to exist. For example, a government commits to award 1,000 qualifying students with bursaries for a particular academic year. As the government has committed to provide bursaries, the obligation exists despite the fact that the identities of the 1,000 students may not be known at reporting date.	Agree.
032	C	We believe that the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated should be considered to be part of the supplementary discussion.	Noted
033	C	I think that is very difficult ability a specific party outside the reporting entity, the regulations and jurisdictions of each country can be problem for your application as essential characteristic, the IFAC – IPSASB will be observed the point 2.38 of this exposure draft.	Staff
034	A	In our opinion this should be part of the definition to ensure this is very clear. An individual, entity, or group must be identified as to who will be settled with to fulfill the responsibility underlying the liability.	Staff note that some ambiguity in response.
035	D	*Did not comment on this SMC.*	

SMC 7(b): Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**27 (85%)**
(B) NO	**2 (6%)**
(C)NO CLEAR VIEW EXPRESSED	**3 (9%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**32 (100%)**
(D) DID NOT COMMENT	**3**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 7(b)	STAFF COMMENT
001	A	Yes. A liability should only exist if Government has no other realistic alternative. If a realistic alternative does exist which results in lower or nil cost, then it would be expected such an option would be taken.	Noted, although Staff considers that issue raised relates to measurement.
002	A	Yes.	See Memorandum, paragraphs 57-59.
003	D	*Did not comment on this SMC.*	
004	A	Yes, NAO agrees that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. Otherwise, it would not be recognised as a liability.	See Memorandum, paragraphs 57-59.
005	A	We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. The absence of this characteristic may result in liabilities being recorded by the government at the financial statement date where settlement is uncertain and subsequently de-recognized in a future period.	See Memorandum, paragraphs 57-59.
006	A	In our opinion the definition of a liability should cover performance obligations and other obligations if a transaction or event have occurred that makes eligible the right to receive a grant and there is no realistic alternative to avoid the obligation.	
007	C	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.	Staff notes view held by some that IASB moving to an emphasis on an enforceable economic obligation. Staff will monitor IASB position.

R#	CATE-GORY	COMMENTS ON SMC 7(b)	STAFF COMMENT
008	A	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.	See Memorandum, paragraphs 57-59.
009	A	Yes we agree that that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
010	A	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.	Staff is of the view that determining what an absence of a realistic alternative to avoid an obligation entails has been particularly problematic in public sector, particularly in a non-exchange context.
011	A	We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
012	A	Yes.	See Memorandum, paragraphs 57-59.
013	A	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.	Noted. SMC 9(c) addressed issue of sovereign power.
014	A	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 formal obligation (arising under law, regulation or contract), but also of the fact that a liability gives rise ultimately to an outflow of resources.	Staff notes that many constructive obligations do not arise under law, regulation or contract.
015	A	The absence of a realistic alternative to avoid the obligation <u>is an essential characteristic</u> of a liability.	See Memorandum, paragraphs 57-59.
016	D	*Did not comment on this SMC.*	
017	A	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.	Noted. See comments on Respondents 10 and 13.

R#	CATE-GORY	COMMENTS ON SMC 7(b)	STAFF COMMENT
018	A	Yes, the Joint Accounting Bodies agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
019	A	Agree.	
020	A	We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. Without this limitation there may be liabilities recorded by the government at the financial statement date where settlement is uncertain and subsequently derecognized in a future period.	See Memorandum, paragraphs 57-59.
021	A	In relation to 7(b) we agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
022	A	A defining characteristic of the liability is its unavoidability. Generally, I concur. Fiscal responsibility would require that funds earmarked for the general public are not spent in other discretionary areas like defense. Social welfare agencies of the government do possess the power to tax activities or behaviors that detract substantially from the public health and cause unnecessary/avoidable health encounters for the poor in particular. This comes under the umbrella of "sin taxes" or taxes on luxury items which may or may not impair health. i.e. cigarettes, marijuana (in some jurisdictions), alcohol, junk food, high content sugar food, inorganic chemistry food or food made substantially in a lab.	Staff is not convinced that the examples give rise to unavoidable obligations.
023	A	Yes. Liabilities are present obligations that embody a duty or responsibility to others, leaving a public sector entity little or no discretion to avoid settlement of the obligation. Having little or no discretion means that a government has no realistic alternative but to settle the obligation. The obligation does not depend on future actions of the government or other transactions or events. The government has given up its freedom to make further choices, judgments and decisions related to the obligation. The absence of a realistic alternative to avoid the obligation is a crucial line in the sand that helps determine when a public sector entity has a liability. Discretion is the ability to make individual choices, judgments or decisions. Decisions such as budgeting for purchases or transfers and future program expenditures are not present obligations. In these circumstances a public sector entity is not bound to a particular course of action, as the entity has realistic alternatives to change or avoid the obligation through its own actions.	Staff agrees that budgeting for purchases or transfers and future program expenditures are not present obligations. Further, Staff is of the view that determining what an absence of a realistic alternative to avoid an obligation entails has been particularly problematic in public sector, particularly in a non-exchange context.
024	C	We do not believe that constructive obligations should be recognized as a liability unless it is enforceable.	Staff notes this view, which implies the difficulty of

R#	CATE-GORY	COMMENTS ON SMC 7(b)	STAFF COMMENT
			operationalizing the concept of a constructive obligation, particularly in anon-exchange context. SMC 9 addressed enforceability more directly.
025	B	In relation to Specific Matter for Comment 7(b), the AASB considers that the absence of a realistic ability to avoid the obligation should not be identified as an essential characteristic of a liability. The AASB considers that this is a factor associating a liability with an entity, and therefore should be treated as a possible recognition criterion.	Referred to in Memorandum, paragraph 57.
026	A	The DGFiP considers that the impossibility to be able to avoid the obligation is an essential characteristic of a liability. This element excludes from this fact the implicit obligations from the scope of the liabilities. So, the fact that there is a strong probability that the intervention plans are renewed during the future periods, creating a justifiable expectation amongst the citizens, does not answer the definition of a liability characterized by the following criteria: - Impossibility for the public entity of being able to avoid the outflow of resources necessary to settle the obligation; - Satisfaction of the attribution criteria.	Staff is of view that probability is a recognition and/or measurement issue.
027	B	No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).	Referred to in Memorandum paragraph 57.
028	A	We agree that the absence of a realistic alternative to avoid an obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
029	D	*Did not comment on this SMC.*	
030	A	HoTARAC agrees that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability, because if the obligation can be avoided there is no claim on the entity's assets nor will there be an outflow of resources of the entity at that point. However, HoTARAC believes that the concept of unavoidability should be considered in conjunction with the obligating event being outside the control of the entity in developing a liability definition. HoTARAC also recommends further guidance should be included in the ED as to the definition of "realistic", in particular when dealing with unique public sector obligations. For example, would the government's inherent powers to avoid obligations be classified as a realistic power?	Referred to in Memorandum, paragraph 58.

R#	CATE-GORY	COMMENTS ON SMC 7(b)	STAFF COMMENT
031	A	We would support the view that whether or not there is a "realistic alternative to avoiding the obligation" is critical in recognising a liability. We would see the existence of an obligation as being the characteristic that is important in defining a liability. The fact that an entity has no realistic alternative but to avoid the obligation would mean that the obligation should be recognised.	See Memorandum, paragraphs 57-59.
032	A	We agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 57-59.
033	C	I agree, but this point isn´t responsibility of the IFAC-IPSASB can be used as practice statement not IPSASB, I think this, I don´t know.	
034	A	Yes, Nova Scotia agrees with this. The point at which government no longer has discretion to avoid a future settlement/ payment is a very important characteristic.	See Memorandum, paragraphs 57-59.
035	A	The absence of a realistic alternative to avoid the settlement of the obligation is an essential characteristic of a liability. The characteristic links the obligation to the public sector entity. The absence of a realistic alternative should not only include legally enforceable obligations but also situations where the government has created a valid expectation among others that the obligation will be settled. Situations where the government still has choice on how to act would not represent a lack of discretion or reasonable alternatives to avoid the obligation. Budgeted acquisitions or future program expenditures are not present obligations since the government still has discretion to avoid the obligation through its own actions.	Staff agrees that budgeted acquisitions or future program expenditures do not give rise to present obligations.

SMC 7(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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ENFORCEABLE CONTRACTUAL, CONSTRUCTIVE AND EQUITABLE OBLIGATIONS	**6 (21%)**
(B) ENFORCEABLE CONTRACTUAL, CONSTRUCTIVE AND EQUITABLE OBLIGATIONS AND OTHER CONSTRUCTIVE AND EQUITABLE OBLIGATIONS ASSOCIATED WITH EXCHANGE TRANSACTIONS	**6 (21%)**
(C)ENFORCEABLE CONTRACTUAL, CONSTRUCTIVE AND EQUITABLE OBLIGATIONS AND ALL OTHER CONSTRUCTIVE AND EQUITABLE OBLIGATIONS FROM WHICH THE PUBLIC SECTOR ENTITY CANNOT REALISTICALLY WITHDRAW	**12 (41%)**
(D) NO CLEAR VIEW EXPRESSED	**5 (17%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**29 (100%)**
(E) DID NOT COMMENT	**6**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
001	C	Unlike commercial enterprises, public sector entities are often subject to strong social expectations (e.g. through policy and program announcements) that often leave the Government with no real alternative. Therefore, ACAG believes liabilities should not be limited to legal obligations but should extend to enforceable contractual, constructive, equitable obligations and all other constructive and equitable obligations for which the entity cannot realistically withdraw (Approach (c)).	Referred to in Memorandum, paragraph 62. Staff has reservations that policy and program announcements leave entities without a realistic alternative to avoid the obligation.
002	C	In our view, the definition of a liability should include all obligations where another party has the right to require settlement. Whilst, in most cases this will be a legal right, it would be too restrictive to require that in all cases the other party should have the ability to enforce settlement at law. Whether a liability should be reported or not should reflect the economic substance: the opinion of lawyers on the likely consequences of obscure precedents of the law of equity should not be required, except perhaps in exceptional cases. If legal enforceability were to be required, it would raise questions about cases where the creditor, although legally entitled to settlement, would be unlikely to incur the cost of legal action to enforce its claim. But the definition should not encompass future outgoings where the other party has no right to require payment. Although the phrase 'valid expectation' has become established, we believe that it should be clarified. It is not sufficient that the other party may have an expectation that is	Under many constructive obligations it is doubtful whether the other party has a right to require settlement. Staff agrees that the term 'valid expectation' can be ambiguous.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		rational and likely to be fulfilled (and so could be described as 'valid'): it is also necessary that the other party is entitled to rely on settlement. We do not support the second approach in paragraph 3.28 as we can see no conceptual basis for distinguishing between obligations that result from exchange and non-exchange transactions. However, we acknowledge that the exchange itself may provide evidence of the existence of an obligation.	
003	C	It is the (c) criterion, Enforceable contractual, constructive, and equitable obligations, and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw. With the scope of paragraphs 3.35 and 3.36	See Memorandum, paragraphs 60-63.
004	B	NAO supports the second approach in determining whether an entity has or has not a realistic alternative to avoid the obligation since it includes all enforceable contractual, constructive and equitable obligations and other constructive and equitable obligations associated with exchange transactions. In all these cases, the obligations are binding on government. In the case of non exchange transactions, such as the announcement of new programmes, although the announcement would be binding on government, it should be recognised as a liability when the amounts to recipients actually become due.	Staff notes the distinction drawn between exchange and non-exchange transactions, but has reservations whether policy announcements give rise to biding obligations.
005	B	We support the use of approach 2 (which include obligations that arise from the government's own actions or conduct) in determining whether an entity has a realistic alternative to avoid the obligation. Legal enforceability is a strong external indicator that a liability exists, creating a basis of recognition that is verifiable and objective. Since government and its policies are highly integrated into the legal systems, an approach that also encompasses moral or ethical obligations where there is no legal basis for enforceability, but where there is no reasonable alternative to the government to avoid the obligation, is also appropriate. Non-exchange transactions should not be incorporated as is proposed in approach 3, as it is important to respect the discretion of a government's sovereign power to avoid liability for future non-exchange transactions by cancelling future funding that has not yet been approved through legislation.	See Memorandum, paragraphs 60-63.
006	B	We support the second approach (b) in paragraph 3.28. The obligation to transfer grants in the future should not be included in the definition of a liability. Constructive obligations that are non-exchange transactions and not legally enforceable should accordingly not be included in the definition of a liability. To go further in the definition would not be understandable to the main users of the financial reports.	Staff notes the point about understandability in relation to non-exchange transactions.
007	C	NSW Treasury supports option (c). We agree with paragraph 3.36 that non-exchange	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		transactions should not be treated differently from exchange transactions in linking the entity and the obligation.	paragraphs 60-63
008	E	*Did not comment on this SMC.*	
009	A	In the under developed regions having fragile political systems the only realistic approach is (a) "Enforceable contractual, constructive, and equitable obligations".	Referred to in Memorandum, paragraph 61.
010	E	*Did not comment on this SMC.*	
011	B	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.	Staff considers that the majority of constructive obligations are unlikely to be legally enforceable. Staff does not think that adoption of approach (c) will necessarily give rise to liabilities for political commitments, as in very many cases entities can withdraw from such commitments.
012	C	Approach c). Whereby there is wide scope for interpretation. The approach would therefore have to be specifically defined.	Staff agrees that approach (c) give rise to difficulties of interpretation and potential inconsistency between entities.
013	C	We consider that approach (c) provides the best approach for the reasons outlined in paragraph 3.35.	See Memorandum, paragraphs 60-63
014	A	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	Noted. Staff finds much of this reasoning persuasive.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		obligation to honor 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.	
015	B	In determining whether an entity has a realistic alternative to avoid the obligation we agree that a moral obligation differs in substance from a legal obligation. However, a government has an obligation to fulfill its side of the transaction if a constructive obligation that is not legally enforceable arises from an exchange transaction. Even if the agreement is not legally enforceable, the government has an obligation because of the economic consequences for future exchange transactions if it does not fulfill its agreement. Based on these considerations, we support the second approach. The third approach, which covers constructive obligations arising from non-exchange transactions, seems to include a very broad liability definition. Valid expectations for the entity to perform may become obsolete after a change in government. From an auditor's view we would assume that such a liability is not verifiable intersubjectively and would be subject to large fluctuations in value. Something else applies only in the rare cases where a past event has occurred (e.g., a request for disbursement of funding). We appreciate, however, that the appropriate information under the third approach is helpful for users. Against this background, such public sector entity rights and powers should be presented and measured (by way of an estimate) in the notes or in other reports such as a long-term fiscal sustainability report. Furthermore we would like to underline the symmetry with the asset definition expressed in the specific matter for comment 4.	Staff agrees that evaluating what is a valid expectation is problematic.
016	E	*Did not comment on this SMC.*	
017	C	For the reasons outlined in paragraph 3.35, we consider that 3.28 (c) provides the best approach: Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw.	See Memorandum, paragraphs 60-63.
018	C	The Joint Accounting Bodies support a definition of a liability that is kept general and broad. We consider that the definition of a liability should be applicable to all types of obligations with no distinction between exchange and non-exchange obligations. The approach (c) is the only approach that extends the application of constructive obligations to non-exchange transactions from which the public sector entity cannot realistically withdraw. Therefore, we think of it as the most supportable. Notwithstanding the prevalence of constructive obligations in the public sector (when compared with the private sector), we suggest that a better approach is for the IPSASB to focus the development of its definition of a liability on whether obligations are conditional or	Staff notes view that issue is better considered by considering conditionality.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		unconditional. We consider that an entity has a liability only in respect of unconditional obligations and that many obligations to provide future benefits (in a non-exchange setting) would be conditional obligations. We also consider that the definition of a liability should encompass unconditional stand ready obligations. We consider an entity has a liability when it has an unconditional obligation from which it cannot realistically withdraw, regardless of whether that obligation is contractual or constructive.	
019	A	The Task Force supports approach (a). In relation to approaches (b) and (c), it is our view that non-exchange transactions should not be treated differently from exchange transactions, regardless of their legal form, in linking the entity and the obligation if reporting entity intends to comply with the obligation. However, taking into account complexity of application of approaches (b) and (c), as well as possibility of varying interpretations and significant discretion that approaches (b) and (c) can be subjected to, the Task Force requests the IPSASB either to provide significantly more expanded analysis on the subject before the earlier can finalize its view or to move away from approaches (b) and (c) entirely.	Staff notes view that further analysis is necessary.
020	B	We support the use of approach 2 – enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions – in determining whether an entity has a realistic alternative to avoid the obligation. This approach encompasses constructive and equitable obligations associated with exchange transactions where there is no legal basis for enforceability, but where there is no reasonable alternative to the government to avoid the obligation. However, at all times, there must be a preponderance of evidence and positive acknowledgement by the government that it is committed to settling the obligation. Non-exchange transactions should not be incorporated as is proposed in approach 3, as it is important to respect the discretion of a government's sovereign power to avoid liability for future non-exchange transactions by cancelling future funding that has not yet been approved through legislation or by choosing to not fund what some parties may consider to be a "moral or ethical obligation." At all times, it is paramount that the ultimate assessment as to the existence of a liability rest with governments who must positively acknowledge that they will settle a liability.	Referred to in Memorandum, paragraph 61.
021	D	In relation to 7(c) we support option (c) in paragraph 3.28 of the CP but have reservations about the emphasis on constructive obligations. Consistent with our comments on the definition of an asset, we support a broad definition of a liability, whilst acknowledging that some types of liabilities will be unlikely to meet recognition criteria.	Under option (c) non-enforceable constructive obligations from which the entity cannot realistically withdraw would give rise to would give rise to liabilities.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
022	E	*Did not comment on this SMC.*	
023	C	We agree with approach (c) in paragraph 3.28. The application of constructive obligations must be extended to non-exchange transactions. The key is when an entity cannot realistically withdraw from/avoid an obligation – and this is not conditional on whether the transaction is exchange or non-exchange in nature. However, we acknowledge that determining when discretion has been lost to avoid an obligation in relation to a non-exchange transactions may not be easy.	See Memorandum, paragraphs 60-63. Staff particularly notes final sentence and considers that this ambiguity may undermine qualitative characteristics of comparability and understandability.
024	A	We support the first approach (enforceability). However, the third approach is acceptable since non-exchange transactions should not be treated differently from exchange transactions in linking the entity and the obligation. A public sector entity cannot realistically withdraw from non-exchange transactions.	Staff notes view that exchange and non-exchange transactions should not be treated differently.
025	D	In relation to Specific Matter for Comment 7(c): (a) the AASB considers that the definition of a liability should be applicable to all types of obligations, with no distinction between obligations arising from exchange and non-exchange transactions (see the comments on exchange and non-exchange transactions in the covering letter); and (b) whether a 'cannot realistically avoid' principle should be adopted is a recognition issue (because it associates an obligation with an entity). The AASB does not have a view on whether any and, if so, which of the three approaches identified in paragraph 3.28 should be preferred. The AASB notes that there is considerable overlap between the three approaches described in paragraph 3.28 and suggests that, if discussion of those approaches is retained in the IPSASB's ED on Elements and Recognition, the ED should contrast the approaches more clearly.	Staff notes view that exchange and non-exchange transactions should not be treated differently. Staff notes view that three approaches need to be explained better.
026	A	The DGFiP excludes: - The second approach as far as the existence of a direct counterpart is not an essential characteristic of the definition of a liability for a public entity. The sovereign missions and the missions of economic and social regulator of the central government are characterized by the predominance of non-exchange transactions. - The third approach as far as, according to the DGFiP, the justifiable expectation of the citizens does not create an obligation for a public entity for the reasons mentioned above.	Staff agrees significance of large number of non-exchange transactions in public sector.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
027	D	Cf. answer to Question 10 hereinafter.	
028	C	In our view, approach (c) in paragraph 3.28 is the best approach for determining whether a public sector entity has no realistic alternative to avoiding an obligation. Given that approach (c) incorporates non-exchange transactions, we believe it is important to note that in our view approach (c) does not necessarily mean that future social policy obligations would be a liability, because at any point in time there is unlikely to be an enforceable obligation for future social policy payments.	Staff notes implications of approach (c) for social policy obligations. Howver, under approach (c) test would be whether public sector entity can realistically withdraw rather than enforceability.
029	E	*Did not comment on this SMC.*	
030	C	HoTARAC supports the third approach outlined in paragraph 3.35. HoTARAC is of the view that "if... the evidence as a whole raises a valid expectation for the entity to perform [and] the entity cannot realistically withdraw from it' and other definition elements are met, then it meets the liability definition. HoTARAC also believes approach (c) (as explained in paragraph 3.28) better reflects the substance of public sector entity's obligations and role. As commented in our response to 7(b) above, HoTARAC suggests examples and guidance be provided to illustrate situations where an entity may not realistically be able withdraw from its previous obligations. The CP discusses the issue of a government's budget and whether the approval of the budget results in an obligation, particularly with regards to social benefits. The CWTH is of the view that these are estimates and intent of the government but not an obligation as they are still conditional on the claimants/recipients to lodge a valid claim and/or the relevant event to occur (i.e. health problems, unemployment or disaster). In Australia, special appropriations allowed any citizen eligible to claim a government payment if the claims meets the criteria. in this instance, the budget estimates a realistic amount but does not set a limit on the resources that will need to be transferred to recipients. HoTARAC notes that approach (c) of paragraph 3.28 is consistent with IFRS and approach (b) (all exchange transactions) is consistent with Government Finance Statistics, and believes this should be stated to assist users in evaluating the choices when the final ED is released. HoTARAC also recommends the IPSASB consider that limiting liabilities to enforceable obligations under approach (a) would require exemptions in cases where public sector entities do not have distinct legal personalities, and transfers between them are not contractually, constructively or equitably enforceable (for example, tax equivalent payments).	Staff agrees that approval of budget does not give rise to an obligation to external parties. Staff accepts point about need to inform readers of difference with IFRS and GFS at ED stage. Staff notes point that may arise if public sector entities do not have distinct legal personalities, but considers that enforceability may not be dependent upon whether an entity has a distinct legal personality.
031	D	Instead of analysing whether legal and constructive obligations exist for exchange and non-	Approach advocated appears

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		exchange transactions, we would support the development of a broad principle that addresses the existence of obligations related to these transactions. We would support a principle that considers the existence of an obligation based on a past event, and the recognition of a liability where an obligation is enforceable. For example: A government may have a policy and history of providing housing to indigent families. While this may create an expectation that houses will be provided to all indigents the existence of a policy or past history does not give rise to an obligation. In our proposal, a liability will not exist until an indigent family makes a successful application to receive a house in a particular housing development (past event that meets the definition of a liability) and the government's obligation to provide this house can be enforced through legislation or similar means (event give rise to an enforceable claim). It is important to note that for many social benefits provided, the receipt of those benefits may be similar to a "contractual arrangement" that is concluded in an exchange transaction. A citizen often applies or requests to receive certain goods or services, which the government then agrees to provide. The existence of this type of "contractual arrangement" reinforces the notion that such liabilities only arise when they are enforceable (as a result of a past event, which is the agreement reached in the contract). For exchange transactions, an enforceable claim would arise where the obligation can be enforced by contractual and other legal rights, or by courts or similar means. It may also be appropriate to consider whether there is an expectation that a liability would be enforced by a court based on common law.	similar to views expressed by Respondent 25.
032	A	We support the first approach, enforceable contractual, constructive, and equitable obligations, among the three approaches identified in paragraph 3.28.	See Memorandum, paragraphs 60-63.
033	D	The point 3.28 comments that "The absence of a realistic alternative to avoid the obligation is another potential essential characteristic in developing the link between the entity and the obligation as: (a) Enforceable contractual, constructive, and equitable obligations. (b) Enforceable contractual, constructive, and equitable obligations and other constructive and equitable obligations associated with exchange transactions. (c) Enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw." The realistic alternative to avoid the obligation, this question is very complexity, because included some comments the question 6 principally for contingencies, transparency in the use in the financial reporting, and clarified in relation the information used for public sector. I have doubt in relation a choose, I think that letter b is better, but I don´t have certain if public	Staff accepts that determining whether a public sector entity can realistically avoid an obligation is not straightforward.

R#	CATE-GORY	COMMENTS ON SMC 7(c)	STAFF COMMENT
		sector entity cannot realistically withdraw. What´s definition for realistic for IFAC-IPSASB, I think that is necessary for development this IPSASB.	
034	C	Nova Scotia tentatively supports the third approach whereby enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw. Nova Scotia's "tentative" position is based on the interpretation of "equitable" obligations. A "moral" liability is a concept that Nova Scotia really sees little practical application and would consider its removal. Such moral obligations rarely meet the definition of a liability in our experience (and our best estimation as these circumstances do not arise often in our province). Moral obligations seem to be driven by fiscal capacity, and the fiscal position of a jurisdiction will dictate what is possible in most cases, therefore discretion remains with government to assess what is possible before any party is really "owed" anything. Therefore, Nova Scotia is reasonably supportive of including this concept however the guidance/ recognition standards must be clear on its application, and it should only be applied in quite rare circumstances (for sub-national jurisdictions anyway).	View that moral obligations will rarely give rise to liabilities is noted.
035	E	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) SUFFICIENT TO STATE THAT PRESENT OBLIGATION	**9 (30%)**
(B) PAST EVENT DESIRABLE/HELPFUL	**7 (24%)**
(C) PAST EVENT NECESSARY	**13 (43%)**
(D) NO CLEAR VIEW EXPRESSED	**1 (3%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30 (100%)**
(E) DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
001	A	Consistent with our response at 2(c), ACAG does not consider a past event as an essential characteristic of a liability. Instead, the more essential characteristic is that a present obligation exists on the entity.	See Memorandum, paragraphs 64-67
002	B	The considerations in respect of liabilities are parallel to those that arise in the case of assets, which we have discussed above in connection with SMC 3. We understand the argument that, if the definition refers to a "present obligation" it is unnecessary to refer a past event. However, we believe that the reference to 'a past event' is helpful. It emphasises that, for a liability to have come into existence there must have been a past transaction or event, and underpins the role of the financial statements in providing an account of historical transactions. A liability may be seen as the link between the past (when it came into existence) and the future (when it will require an outflow of economic benefits). Reference to 'a past event' is also helpful in distinguishing mere current expectations of future outflows from obligations stemming from past transactions and events.	Referred to in Memorandum, paragraph 66.
003	C	You must be consistent with the Asset specific matter 3. It should be a present obligation arising from an accrued past event. Thus linking this basic principle avoids the drawbacks of paragraph 3.43.	View that symmetry with asset definition necessary is noted.
004	C	It is not sufficient to state that a liability is a "present" obligation, but there must also be a past event that occurs to place emphasis on the fact that the event giving rise to the entity's present obligation has already occurred.	See Memorandum, paragraphs 64-67.
005	C	The occurrence of a past event obligating the government is an essential characteristic of a	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
		liability. It is not sufficient to state that a liability is a "present" obligation. While the requirement of a "present" obligation may prevent including obligations that arise on the occurrence of a future event, there may be some obligations where a past event has not occurred that could be considered as "present" obligations, particularly with environmental obligations. In our view, these should not be captured as liabilities until the event occurs (such as becoming legally enforceable or the government obligates itself without a reasonable alternative to avoid).	paragraphs 64-67. It could be argued that in the case of an environmental obligation the past event is the entity's publicly communicated commitment to deal with the environmental hazard.
006	C	In our opinion the occurrence of a past event should be a criterion to define assets and liabilities.	See Memorandum, paragraphs 64-67.
007	B	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 only to refer to a 'present' obligation.	See Memorandum, paragraphs 64-67. Staff does not think that IPSASB should follow IASB approach without full analysis.
008	C	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.	See Memorandum, paragraphs 64-67.
009	A	In our opinion it is sufficient to state that liability is a present obligation.	See Memorandum, paragraphs 64-67.
010	E	*Did not comment on this SMC.*	
011	A	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.	See comment on Respondent 7.
012	C	A "past event" is needed, in order that there is as much clarity as possible in this question.	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
			paragraphs 64-67.
013	A	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.	Staff notes point about ambiguity in relation to identification of a past event.
014	C	**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.	Staff notes point on necessity of triggering event.
015	C	We support a balanced asset and liability definition. In accordance with the view expressed regarding the asset definition (see specific matter for comment 3), we consider a past event that has occurred to be necessary.	Staff notes view that symmetry is necessary between assets and liabilities.
016	E	*Did not comment on this SMC.*	
017	B	CIPFA considers that there must have been an event, or a series of events, that result 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. Having said all of the above, we would note that the 'past event' approach may be helpful in providing a trigger for recognition in particular IPSAS standards.	See Memorandum, paragraphs 64-67..Staff notes point about ambiguity in relation to identification of a past event
018	B	The Joint Accounting Bodies believe it is sufficient to state that a liability is a present obligation. However, we acknowledge that a past event may be useful as an indicator that a liability exists.	Referred to in CF Memorandum, paragraph. 66.
019	A	The Task Force concurs with the view that existence of a liability at the reporting date is a more important consideration than whether it is a result of past transaction (s). We note, however, that	See Memorandum, paragraphs 64-67..

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
		it is a rare occurrence than a liability which exists at the reporting date did not originate from an event which occurred prior to or at the end of the reporting period.	
020	C	The occurrence of a past event obligating the government is an essential characteristic of a liability. It is not sufficient to state that a liability is a "present" obligation, as the existence of a liability is dependent on the occurrence of a past event. While the requirement of a "present" obligation may prevent including obligations that arise on the occurrence of a future event, there may be some obligations where a past event has not occurred that could be considered as "present" obligations. In our view, these should not be captured as liabilities until the event giving rise to the liability occurs.	See Memorandum, paragraphs 64-67.
021	A	Consistent with our response on specific matter for comment 3, we consider that a past event may indicate the existence of a present obligation but it is not an essential component of the definition of a liability.	Referred to in Memorandum, paragraph 65.
022	E	*Did not comment on this SMC.*	
023	B	We believe that it is the existence of the obligation at the financial statement date (i.e., a "present" obligation) that is the key factor. Similar to our response to Matter 3 above, the occurrence of a past transaction or event may be crucial evidence that prompts an entity to evaluate whether it has a present obligation resulting from that transaction or event. Perhaps indicators that a public sector entity should consider in evaluating if it has a present obligation to be recognized as a liability might be an option here, as was suggested for an asset above. We do not believe that the role of a past transaction or event should be eliminated from the guidance surrounding the liability definition but do not believe that it is a defining characteristic of a liability.	See Memorandum, paragraphs 64-67.
024	A	We believe that a present obligation must exist and it is not contingent on the existence of a past transaction.	See Memorandum, paragraphs 64-67.
025	B	Consistent with its comments on Specific Matter for Comment 3, the AASB considers that every liability of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that *identification* of a past transaction or other past event of the reporting entity should not be necessary for a liability to qualify for recognition. This is because the AASB agrees with the arguments in paragraph 3.40(b) and (c) of the CP, albeit in the context of recognition criteria for a liability rather than the definition of a liability (because a past transaction or other past event would be one way of associating a liability with a particular reporting entity).	Staff notes subtle distinction between 'resulting from a past transaction' and 'identification of a past event'.

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
		Nevertheless, the AASB supports: (a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that a liability of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while (b) noting that the existence of a past transaction or other past event does not guarantee that a liability continues to qualify for recognition.	
026	C	For the reasons mentioned above, a permanent obligation is not essential of a liability materialized by an act of assignment and the satisfaction of the attribution criteria.	
027	C	A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.	Referred to in Memorandum, para. 65.
028	A	In our view, as we noted for an asset and for similar reasons, it is sufficient (and preferable) to state that a liability is a present obligation.	See Memorandum, paragraphs 64-67.
029	E	*Did not comment on this SMC.*	
030	B	Consistent with HoTARAC's response to Specific Matter for Comment 3 above, HoTARAC supports the view that the primary criterion of a liability should be a present obligation. However a strong indicator for the existence of a "present" obligation may be the existence of a past transaction or event.	See Memorandum, paragraphs 64-67.
031	C	See the response to SMC 3 on assets. The same response applies to liabilities.	Noted view that symmetry between assets and liabilities necessary
032	E	*Did not comment on this SMC.*	
033	D	In the point 3.42 I know that this point is very important for the government but this method isn´t useful for this specific point, generally present events or present value don´t included in the budget, in the financial reporting. I don´t know if is practical for the public sector this is very important for the companies that this resource. This idea is related with point too, 2.52 "… This view depends only on the condition that the rights to the benefits exist at the reporting date. It does not require a past transaction or event to have occurred to crystallize the rights as an asset" as point 3.43 "This issue is particularly relevant in the case of executory contracts, where the reporting entity may enter into a non-cancellable obligation—suggesting a present obligation, but the other party has material unperformed obligations—suggesting a future obligation".	Staff notes question of whether an executor contract has links to an identifiable past event.
034	C	Nova Scotia feels there should be reference to a "past event" that has occurred.	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 8	STAFF COMMENT
			paragraphs 64-67.
035	A	Governments have many future obligations but only present obligations at the reporting date should be accrued as liabilities. The event or transaction obligating the government must have already occurred as of the reporting date to be accrued as a liability. In most situations the event can be easily identified. For exchange transaction the goods or services, including the services of employees, have already been provided to the government. Commitments to future program expenditures are not liabilities at the reporting date because the government still has the discretion to avoid the obligation through its own actions. Contractual obligations are also not liabilities unless the contracted party has provided good and/or services by the reporting date. At times the government may have conditional obligations. The determination of whether or not the conditional obligation is a liability at the reporting date will be confirmed by a future event that is not within the government's control. If the occurrence of the condition or future event is not determinable then the government does not have a liability at the reporting date. If the confirming event occurs before the release of the GPFS, or is even simply likely to happen, then the conditional obligation is a present obligation at the reporting date and should be recorded as a liability.	Staff agrees that in many cases a past event will be identifiable, but that in some cases there are multiple potential past events, especially when dealing with non-exchange contexts such as social benefits.

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) PERPETUAL OBLIGATIONS	**3 (10%)**
(B) OBLIGATIONS ONLY WHEN ENFORCEABLE CLAIMS	**11 (37%)**
(C) NO CLEAR VIEW EXPRESSED	**16 (53%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30 (100%)**
(D) DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
001	B	ACAG supports that an obligation exists only where there are enforceable claims, either arising from contractual, constructive or moral grounds (paragraph 3.50). For example, the Government would become liable for an employees retirement benefits over the period the employee provides services, as once the service is performed, the employee may claim payment on contractual and/or moral grounds. Until the employee has performed the service, no expectation to settle exists for the Government entity.	See memorandum, paragraphs 68-71.
002	B	In our view, a liability for financial reporting purposes only exists where another party has an enforceable claim.	See memorandum, paragraphs 68-71.
003	C	In this matter we must be consistent with matter 4 of Assets.(Paragraph Reference 3.51) Including a program in the budget does not constitute a debt. To constitute an enforceable obligation the due process should be concluded and accrued. Time required to make the payment.(Paragraph Reference 3.52)	Staff notes and agrees with view that inclusion of a program in a budget does not give rise per se to a liability.
004	B	NAO is of the opinion that obligations such as those associated with its duties and responsibilities as government are such when they become enforceable claims.	See memorandum, paragraphs 68-71.
005	C	We believe that the recognition and measurement criteria must be considered when looking at the characteristics of obligations and liabilities and would caution that making decisions regarding this issue without considering the implications on recognition and measurement may result in unintended consequences when these factors are not considered. As noted in our comments with respect to the existence of a realistic alternative to avoid an obligation, most government obligations will exist based on enforceable claims, such as under contractual agreements;	Staff is of the view that identification of an intermediate even may not always be straightforward.

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		however, there may also be some obligations that arise from moral or ethical situations that may not be legally enforceable, but would exist based on an appropriate intermediate event.	
006	D	*Did not comment on this SMC.*	
007	B	NSW Treasury considers that public sector entity obligations are obligations only when they are enforceable claims.	See memorandum, paragraphs 68-71.
008	D	*Did not comment on this SMC.*	
009	B	Enforceability of an obligation is an essential characteristic of a liability else it may be reported as contingent liability.	See memorandum, paragraphs 68-71.
010	D	*Did not comment on this SMC.*	
011	C	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.	
012	C	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.	Staff notes point that clarification of what constitutes an intermediate event may be necessary.
013	B	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.	Staff have reservations about view that "in substance an enforceable claim arises out of entity having no reasonable alternative to avoid the obligation."
014	C	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.	Staff agrees that general obligations do not give rise to liabilities.
015	C	The recognition of perpetual obligations as a liability would not require the occurrence of a past	Staff notes that issue not

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		transaction or event for the obligation to meet the definition of a liability. As mentioned above (see specific matters for comment 3 and 8) we are in favor of a past event that has occurred with respect to assets and liabilities. Furthermore we would like to stress that perpetual obligations are part of the "ongoing activity" of governments. The existence of a past event that has occurred is the essential difference between "ongoing activities" and an existing liability.	viewed in terms of enforceability.
016	C	In the same way we do not include public sector entity obligations such as those associated with its duties and responsibilities as a government.	Staff agrees that there may not be congruence between duties and responsibilities and obligations.
017	B	Consistent with the response to Specific Matter for Comment 7, we consider that the obligations which might potentially be recognised and measured as a liability should be those where there is no realistic alternative to avoid the obligation. While there may be a sense in which obligations arise from general duties and responsibilities, for reasons of practicality an approach which focuses on enforceability of claims or unavoidability is a better fit for liability definitions. The factors that would trigger a liability are likely to vary between jurisdictions, depending on legal systems, specific legislation and political factors. Inasmuch as there may be intermediate events relating to liabilities, these will mainly relate to determination that enforceable claims will occur or are likely to occur, even though the recipients have yet to be determined.	Staff notes that, as for Respondent 15 issue not viewed primarily in terms of enforceability.
018	A	The Joint Accounting Bodies consider the inherent responsibilities of government to provide security, education, health and other services to its citizens do result in the existence of perpetual obligations to transfer benefits to another party and that the government has no realistic alternative to avoid these obligations, and therefore, they are a liability. We consider it important that the liability definition is kept general and broad. Whether or not a liability is recognised in the financial statements is, and should remain, a separate matter and be dependent on the liability satisfying prescribed recognition criteria. The finalised Framework must be clear on this sequencing.	Referred to in Memorandum, paragraph 69.
019	C	Having considered the above specific matter for comment 9 in the context of United Nations System, the Task Force disagrees with the view that duties and responsibilities of organizations in carrying out their mandate should be considered as obligations and/or liabilities to be reported in the GPFSs. The existence of United Nations System organizations is justified by the need to carry out their respective mandates and their performance is monitored by the Member States, many of whom are also, in broad terms, recipients of services provided by the said organizations. Valuing the reason for existence of organizations as a liability, expressed in monetary terms, in its GPFS is too broad and too controversial of a concept to be considered within Conceptual	See comments on Respondent 16.

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		Framework or any IPSAS reporting framework.	
020	C	We believe that the recognition and measurement criteria must be considered when looking at the characteristics of obligations and liabilities and would caution that making decisions regarding this issue without considering the implications on recognition and measurement may cause undesirable results when these factors are considered. As noted in our comments with respect to the existence of a realistic alternative to avoid an obligation, most government obligations will exist based on enforceable claims, such as under contractual agreements; however, there may also be some obligations that arise from moral or ethical situations that may not be legally enforceable, but would exist based on an appropriate intermediate event. Care must be taken in developing a framework related to duties and responsibilities of government to ensure that liabilities are not accrued before a government has lost discretion to avoid payment or before a government has recognized related future revenue streams that will be used to fund the future obligations. At all times, governments must acknowledge a responsibility to settle the obligation prior to a liability being recorded; and the ultimate assessment as to whether and when a liability is to be recorded arising from moral or ethical situations that may not be legally enforceable must reside with the government.	Staff has reservations whether the ultimate assessment as to whether and when a liability is to be recorded arising from moral or ethical situations that may not be legally enforceable must reside with the government.
021	A	In relation to specific matter for comment 9(a), and consistent with our comments in relation to the definition of an asset, we support the perpetual obligations view outlined in the CP. The CP discusses how the nature of obligations can change over time, with future events crystallising the timing of outflows and the claimants. We agree that this is an appropriate way of describing the life cycle of some liabilities. However, we would also encourage the IPSASB to explicitly acknowledge that only some obligations will (i) meet the definition of a liability and (ii) meet the criteria for recognition in the financial statements.	Staff agrees that, as for 'perpetual assets', many perpetual obligations will not be measurable.
022	D	*Did not comment on this SMC.*	
023	B	We believe that a government's responsibilities should only be considered obligations of the entity when they lead to enforceable claims. Government responsibilities change. Governments change on a regular basis and so do the programs they establish. Even those responsibilities considered to be "untouchable" are just programs and they can be changed or cancelled, albeit with some political fallout. The existence of a program/responsibility is not sufficient evidence of an obligation. At a minimum, some exercise of authority is required for a government to lose its discretion to avoid an obligation. Indicators such as those suggested in response to Matter 8 might help in ensuring that "perpetual obligations" are not even considered for recognition. The measurement difficulties for "perpetual obligations" would likely be insurmountable and it would be difficult for such obligations to meet the qualitative characteristics of items to be	Referred to in Memorandum, paragraph 69.

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		reported in financial statements.	
024	B	Obligations become liabilities only when they are legally enforceable. However, we recognize that there may be an appropriate intermediate event since all the claims and announced plans/ programs of the public sector entity may also be considered as obligations. There is also a need to apply substance over form, in that a sovereign government may be able to retrospectively amend laws to remove obligations. This is addressed in (c) below.	Staff notes cross-reference to issue of role of sovereign power.
025	C	In relation to Specific Matter for Comment 9(a), the AASB: (a) considers that obligations to provide social benefits are liabilities that may qualify for recognition; but (b) does not support depicting such obligations as 'perpetual obligations' because those obligations are continually settled and replaced with new obligations. Whilst those obligations may appear to be perpetual, in substance they are not. Another example of what might, inappropriately, be termed a perpetual obligation is the balance of employees' holiday leave entitlements.	Referred to in Memorandum, paragraph 70.
026	C	As indicated in our answer to the question 6 (a), the obligations of the public entities, such as those associated with their functions and with their responsibilities of government, are not considered as liabilities.	Staff acknowledges and accepts this view.
027	C	The legal character or an obligation must be a determining criterion, which implies that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.	Staff considers that the adjustment of the amount of a liability is a measurement issue rather than an issue related to definitions or recognition,.
028	B	In our view, an obligation of a public sector entity exists when the entity has little discretion to avoid the obligation. That view links reasonably well with the notion that there needs to be an enforceable claim against an entity for the entity to have an obligation.	Staff not fully convinced that having little discretion to avoid an obligation is a proxy for enforceability
029	C	The province would support a view that constructive obligations and perpetual obligations should only be recorded if there is a sound basis for recognizing the claim. However, it should not be a requirement that the basis for recognizing the claim be a part of a transaction or be a stipulation within a transfer agreement. For example, when a federal government makes a public announcement that it is making a transfer of a large sum of money shortly before the close of its	The treatment of such a transfer is dependent upon views on revenue and expense-led and asset and liability-led models.

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		fiscal year end to a province or state and publically announces that the transfer is for funding specified future service delivery or a group of specified future service deliveries, such as health services, the recipient should record the funds received as deferred revenue/ constructive obligation, until it has legislative authority to spend the funds for the stated purpose. Similarly, when a transfer is specified to be for the construction of a tangible capital asset, which will in turn be utilized to provide future services, the deferral of recognition of that transfer as revenue should relate to the time period covered by the service delivery and not be seen as relating to the time period of construction. The discussion of perpetual obligations suggests that a government cannot avoid certain obligations. This claim is not supported by the examples of security, education or health, all of which represent policy decisions by the government. For example Costa Rica has chosen to have no military at all, and conversely, what level of security does the obligation extend to, for example Canada has large neighbours on both its Northern and Southern boarders both of which have significant military capacity, surely you do not suggest the Canadian government should record a liability representing an obligation to establish an independent military sufficient to provide security from both neighbours. Canada has joined an alliance for which liabilities may be defined in agreements which may be appropriately recognized. In some countries education or health may not be a central or federal government responsibility or may be provided primarily by the private sector or religious institutions. The province does not support the broad sweeping generalizations made in this regard and feels that liabilities exist only when there is legislation or other authority to commit the government and where registration, application or other pre-conditions have been met by third parties.	Accepted that governmental obligations can and do vary between jurisdictions.
030	C	HoTARAC notes that not all obligations can be recognised as liabilities and believes IPSAS should acknowledge this in framing the question. Only some obligations qualify as the more restrictive liabilities. Perpetual obligations, such as social benefits currently do not qualify as liabilities until all substantive obligations are met and HoTARAC would support continuation of this approach. Only obligations that satisfy the liability definition should be recognised, which is consistent with accrual principles (refer to Specific Matter for Comment 7).	Staff notes that, in some cases, some would advocate recognition of expenses and liabilities related to social benefits prior to the satisfaction of all substantive obligations.
031	C	As noted in our response to SMC 4, a government or public sector entity may have an obligation or an ongoing obligation to provide certain resources. However, until a specific event has occurred that compels the entity to transfer economic benefits or service potential to another party (i.e. the other party can enforce the obligation), a liability cannot be recognised.	See memorandum, paragraphs 68-71.
032	B	We support the approach that public sector entity obligations such as those associated with its	See memorandum,

R#	CATE-GORY	COMMENTS ON SMC 9(a)	STAFF COMMENT
		duties and responsibilities as a government, perpetual obligations, are obligations only when there are enforceable claims. We believe that it is relevant for users of financial reports to recognize inherent duties and responsibilities of public sector entities in the same way as duties and responsibilities of private sector entities.	paragraphs 68-71.
033	C	I think that isn´t appropriate intermediate event can be occurred some problems for control and transparency for the entity of public sector. I think that this point is better discussed when finished discussion Exposure Draft 1 for IPSAS.	
034	A	An appropriate intermediate event is seen as appropriate in considering government obligations because there are constructive/ equitable obligations that can arise that are not of a legally enforceable nature.	Staff considers that identification of an appropriate intermediate event may not be straightforward.
035	D	*Did not comment on this SMC.*	

SMC 9(b):Is the enforceability of an obligation an essential characteristic of a liability?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ENFORCEABILITY ESSENTIAL	**15 (55%)**
(B) ENFORCEABILITY NOT ESSENTIAL	**8 (30%)**
(C) NO CLEAR VIEW EXPRESSED	**4 (15%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(D) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 9(b)	STAFF COMMENT
001	A	Yes, however as noted above ACAG considers that enforceability can rise from contractual, constructive or moral obligations.	Staff has reservations that moral obligations can be enforceable and
002	A	Yes, but not necessarily legal enforceability. See our answer to SMC 7, above.	See Memorandum, paragraphs 73-76.
003	D	*Did not comment on this SMC.*	
004	A	NAO believes that the enforceability of an obligation is an essential characteristic of a liability because it ensures that the liability is really due.	Staff notes view that enforceability reinforces evidence about existence.
005	B	Enforceability of an obligation is not an essential characteristic of a liability, as obligations may also arise from moral or ethical consequences that cannot be legally enforced. In the event that these can be tied to a past event and there is a previous pattern that would suggest that a government does not have a reasonable alternative to avoid the obligation, these obligations should be considered liabilities of the government. This position is consistent with approach 2 (which include obligations that arise from the government own actions or conduct) discussed in specific matter for comment 7 (above).	Referred to in Memorandum, paragraph 74
006	D	*Did not comment on this SMC.*	
007	A	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.	Staff notes that IASB has not recently considered the equivalent phase of its Conceptual Framework project and it is not clear

R#	CATE-GORY	COMMENTS ON SMC 9(b)	STAFF COMMENT
			whether the IASB view represents current thinking. Staff will continue to monitor.
008	D	*Did not comment on this SMC.*	
009	A	Yes, enforceability is an essential characteristic.	See Memorandum, paragraphs 73-76.
010	D	*Did not comment on this SMC.*	
011	A	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.	Staff agrees that exchange transactions are unlikely to lead to particular public sector considerations.
012	A	Yes.	
013	A	Yes. As noted above enforceability can arise from contractual, constructive political or moral obligations.	Referred to in Memorandum, paragraph 74
014	A	The CNOCP stipulates that the obligation to perform, as part of an enforceable arrangement, is an essential characteristic of a liability.	See Memorandum, paragraphs 73-76.
015	A	We share the view expressed in paragraph 3.50, which holds that the parties to whom the obligations are made must presently be able to enforce their claims. The approval of the budget alone does not transform plan, policies, and programs into enforceable obligations at the date the budget is approved. With respect to the diagram in paragraph 3.45, which provides a broad overview, an obligation only meets the definition of a liability on the right-hand side of the diagram. The question raised in paragraph 3.58 is also very pertinent. If stipulations require the return of the transferred benefits in cases where the recipient does not comply with the terms of the agreement, the recipient has a liability related to the transferred assets until it has complied with the terms of the agreement.	Staff note view that approval of budget alone does not lead to an enforceable obligation.
016	D	*Did not comment on this SMC.*	
017	A	Yes. As noted above enforceability can arise from contractual, constructive political or moral obligations.	See Memorandum, paragraphs 73-76. As indicated above (Respondent

R#	CATE-GORY	COMMENTS ON SMC 9(b)	STAFF COMMENT
			1) Staff have reservations whether moral obligations are enforceable
018	B	The Joint Accounting Bodies do not support 'enforceability of an obligation' as an essential characteristic of a liability. However, we acknowledge that enforceability may be useful as an indicator that a liability exists.	Note view that enforceability a useful indicator.
019	C	It is a view of the Task Force that enforceability in substance, not in form, is indeed an essential criterion for recognition of a liability. However, if a reporting entity wishes to recognize obligations beyond those which are enforceable, on the basis that it intends to comply with those obligations to carry out its mandate or for other justifiable reasons, it should be allowed (but not required) to do so. This is especially applicable in cases when the voluntary recognition approach would enhance usefulness of GPFSs for users.	Referred to in Memorandum, paragraph 75.
020	B	Enforceability of an obligation is not an essential characteristic of a liability as obligations may also arise from moral or ethical consequences that cannot be legally enforced. In the event that these can be tied to a past event and the preponderance of evidence suggests that a government has lost its discretion to avoid the obligation, these obligations should be considered liabilities of the government. This position is consistent with approach 2 discussed previously.	Staff notes and agrees view that moral or ethical obligations are not legally enforceable.
021	C	In responding to specific matter for comment 7(b) we expressed the view that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. Our response to specific matter for comment 9(b) is "No", given that paragraphs 3.50 – 3.58 of the CP explain 'enforceability' as a present capacity of claimants to enforce their claims against the entity. However, we note that in many cases those obligations that are enforceable will also be obligations that an entity has no realistic way of avoiding. However, we consider that there are some obligations which will not presently be enforceable but which should nevertheless be identified as liabilities (even if they are not recognised in the financial statements).	See Memorandum, paragraphs 73-76.
022	D	*Did not comment on this SMC.*	
023	B	Yes, enforceability of an obligation is important. But we do not believe that it should be identified as an essential characteristic of a liability. It should instead be part of the guidance that explains what "no realistic alternative to avoid the obligation" means. Enforceability should go beyond the contractual to include legal enforceability through other concepts such as promissory estoppel. The inclusion of enforceability serves to emphasize the binding nature of the obligation and thus	See Memorandum, paragraphs 73-76.In the view of staff it was the intention of the Consultation Paper that enforceability extends beyond contractual enforceability to include

R#	CATE-GORY	COMMENTS ON SMC 9(b)	STAFF COMMENT
		supports the contention that an entity has a liability. Enforceability often includes the notion of consequences for non-performance – explicit or implicit. Implicit consequences are those that are understood because of past experience between the parties to an obligation, or past behaviour of the obligor, and that have resulted in sanctions in the past so they would serve as well as explicit consequences to emphasize the binding nature of the obligation. Without such explicit or implicit consequences, a binding right is not obtained nor a binding obligation undertaken and performance requirements alone may merely reflect the intentions of the two parties rather than a firm commitment. The notion of enforceability thus reinforces the "no realistic alternative to avoid the obligation" idea underlying the definition of a liability. So it is needed guidance but not an essential characteristic of a liability.	laws, regulations and other binding arrangements.
024	A	Yes, we believe enforceability is an essential characteristic.	See memorandum, paragraphs 73-76.
025	C	In relation to Specific Matter for Comment 9(b), the AASB is of the view that the significance of whether an obligation is enforceable is a recognition issue rather than an issue affecting the definition of a liability. A similar liability recognition issue the AASB recommends addressing is whether obligations should be unconditional in order to qualify for recognition. Whether an obligation is unconditional is a factor associating a liability with an entity, and therefore the AASB does not consider it to be an issue affecting the definition of a liability.	Noted view that this is a recognition issue
026	A	The fact that the obligation takes on an enforceable character constitutes an essential characteristic of a liability. Nevertheless, this liability is recorded as soon as the attribution conditions are filled by the beneficiary, implying the impossibility for the public entity of being able to avoid the outflow of resources necessary for the settlement of the obligation.	See memorandum, paragraphs 73-76.
027	B	No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.	Staff presumes that such a provision would be based on an evaluation of legal enforceability.
028	A	In our view, the enforceability of an obligation is an essential characteristic of a liability.	See Memorandum, paragraphs 73-76.
029	C	The paper discusses recognizing obligations if they may lead to enforceable claims, which is also too broad a definition. The example of considering that the annual approved budget leads to	

R#	CATE-GORY	COMMENTS ON SMC 9(b)	STAFF COMMENT
		enforceable claims and may therefore be a liability is not supported. The budget is a statement of policy and estimates of the cost of implementing the policies proposed. Even when approved by the legislative assembly no citizen can sue the government to provide some goods or services stipulated in the budget. In addition, the government has no authority to spend/disburse with only an approved budget. Subsequently, appropriations are approved by the legislative assembly which provides authority to spend but this still does not constitute a liability. Ministries will have to go through internal control procedures to have a contract approved before there is a liability. There is a special case, often referred to as entitlements, where citizens have a right, provided in legislation, to claim payment with or without a budget or appropriation although many of these also require an application and possibly a means test before a claim is enforceable.	
030	B	As indicated in our comments in Specific Matter for Comment 7(c), HoTARAC does not support the view that enforceability of an obligation is an essential characteristic of a liability. The essential characteristic of a liability should be focus on the notion of absence of a realistic alternative to avoid the obligation, rather than enforceability. Having said that, HoTARAC supports the view that enforceability does provide a strong indication that an entity has no realistic alternative.	See memorandum, paragraphs 73-76.
031	A	If an obligation arises from a contract, legislation or past actions/behaviors, it implies that the obligation is enforceable. While enforceability is necessary, it is questioned whether this should be an explicit requirement in the definition of a liability.	Staff finds view in second sentence ambiguous.
032	D	*Did not comment on this SMC.*	
033	B	The enforceability of an obligation is most important not essential, I think. This point can be considerable with don´t have control and transparency an obligation can be occur problems for controls in the public sector.	See Memorandum, paragraphs 73-76.
034	B	If by enforceability we mean legally enforceable Nova Scotia's position is no, this is not an essential characteristic of a liability. The concept of the point where government no longer has discretion to avoid settlement is essential and this can be quite different than something being "enforceable".	See memorandum, paragraphs 73-76.
035	D	*Did not comment on this SMC.*	

SMC 9(c): Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to legal position at the reporting date?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) LIABILITY DEFINITION TO INCLUDE ASSUMPTION ABOUT SOVEREIGN POWER	**12 (43%)**
(B) LIABILITY DEFINITION NEED NOT INCLUDE ASSUMPTION ABOUT SOVEREIGN POWER	**9 (32%)**
(C) NO CLEAR VIEW EXPRESSED	**7 (25%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 9(c)	STAFF COMMENT
001	B	ACAG considers that sovereign power should not be considered in determining enforceability. Instead, the framework in place at reporting date should be the basis for determining the enforceability of claims.	Agrees.
002	B	Where a sovereign government has a legal obligation, the possibility that it might use its sovereign power to 'walk away' does not justify omitting that liability. A liability should continue to be reported until the legislature passes new legislation that relieves the administration of the liability.	Agrees
003	D	*Did not comment on this SMC.*	
004	A	NAO believes that the definition of a liability should include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date. Such a fact is to be stated in the GPFRs to provide more information to users.	Agrees
005	A	However, the definition of a liability must also reflect the role that sovereign power plays with respect to government obligations, in particular when it relates to non-exchange transactions, such as transfer payments or contributions to third parties that are dependent on annual legislative approval for continued funding. In recognition of this fact, liability should be based on legislation in force at the measurement date.	Referred to in Memorandum, paragraph 79. Staff assumes that measurement date is same as reporting date.
006	A	We think that the assumption about the role that sovereign power plays within the public sector is important. Social benefit obligations in the future should not be liabilities because a government can walk away from the obligations. Those future social obligations could be disclosed in a sustainability report. To go further in the definition would not be understandable to the main users of the financial reports.	

R#	CATE-GORY	COMMENTS ON SMC 9(c)	STAFF COMMENT
007	B	NSW Treasury does not see the need for making such an assumption.	Noted
008	D	*Did not comment on this SMC.*	
009	B	In Pakistan, this assumption should not be considered in defining the liability.	Noted
010	D	*Did not comment on this SMC.*	
011	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.	Noted view that constructive obligations can give rise to liabilities in a non-exchange context.
012	A	Yes, regarded as sensible. The *Conceptual Framework* could then provide information as to how various cases are to be treated.	Staff has reservations whether the Conceptual Framework should get into such a level of detail.
013	B	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.	Referred to in Memorandum, paragraph 79.
014	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.**	Noted view consistent with that expressed on SMC 8
015	A	The definition of a liability should include an assumption about the role that sovereign power plays. With respect to the sovereign power to avoid obligations we support the approach to base the determination of whether a liability exists on reference to the legal position at the reporting date. A legal position at the reporting date depends on whether the government has made use of its sovereign power at the reporting date.	Agrees that determination of a liability should be by reference to legal position at reporting date.

R#	CATE-GORY	COMMENTS ON SMC 9(c)	STAFF COMMENT
016	D	*Did not comment on this SMC.*	
017	A	As is discussed at 3.59 - 3.60 of the Consultation Paper, 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.	Agree.
018	B	The Joint Accounting Bodies believe a general and broad definition of liabilities is able to deal appropriately with the issue of sovereign power. As noted in our response to Question 7(c) above we consider that an entity has a liability when it has an unconditional obligation from which it cannot realistically withdraw. Therefore, the definition of a liability will only be satisfied on those occasions when the consequences to the government of exercising its sovereign power to avoid its obligations are such that withdrawal is not a realistic option. In all other instances, the liability definition will not be satisfied	See memorandum, paragraphs 78-81.
019	C	No Comment. United Nations System organizations do not have rights to make, amend and repel legal provisions similar to authority of a government.	Circumstance of UN noted.
020	A	We believe that the definition of a liability must reflect the role that sovereign power plays with respect to government obligations, in particular when it relates to non-exchange transactions, such as transfer payments or contributions to third parties that are dependent on annual legislative approval for continued funding. In recognition of this fact, the assessment of whether or not a liability exists should be based on legislation in force at the measurement date.	Noted. Staff assumes that measurement date and reporting date are synonymous.
021	A	With regard to specific matter for comment 9(c) our comments on 9(a) may be relevant. If a generic definition of a liability focusing on unconditional obligations is adopted, some obligations of governments would be identified as liabilities, but not recognised because they do not meet recognition criteria. If a government's policies changed, some of these obligations might cease to be liabilities.	Link to SMC 9(a) noted.
022	D	*Did not comment on this SMC.*	
023	A	Yes. If the definition of a liability is that it is a "present" obligation, then there should be guidance explaining this concept that addresses the existence of sovereign powers. The existence of the power alone is not enough – it needs to be exercised at the financial statement date in order for it to have any impact on recognition in the financial statements. The power to repudiate an obligation in the future does not negate the fact that an entity may have a present obligation at the financial statement date. This position is consistent with that taken in this response regarding the	Staff notes the view that guidance on approach to sovereign powers, although not fully clear that this would entail incorporation of an assumption in the

R#	CATE-GORY	COMMENTS ON SMC 9(c)	STAFF COMMENT
		power to tax or license and the "perpetual" responsibilities of government.	definition.
024	B	It does not take into consideration the sovereign power that government has. This may be relevant but does not normally need to be made explicit.	Noted
025	C	With regard to Specific Matter for Comment 9(c), the AASB considers that the significance of sovereign powers to cancel or modify obligations to other parties is a recognition issue rather than an issue affecting the definition of a liability. The AASB considers that assessments of whether particular liabilities qualify for recognition should be based on existing legislation.	Referred to in CF Memorandum, paragraph 80
026	C	A liability requires the satisfaction of the attribution criteria, confirmed by an act of assignment (contract or decision).	Unclear whether this involves an assumption about sovereign power.
027	A	Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.	See Memorandum, paragraphs 78-81.
028	A	In our view, the definition of a liability needs to include an assumption about the role that sovereign power plays. The assumption needs to limit the role of sovereign power to the legal position at the reporting date.	See Memorandum, paragraphs 78-81.
029	C	The province supports the view that although a sovereign power can avoid its future obligations through legislation, it cannot avoid its past obligations or obligations for which a confirming event has occurred. It is appropriate to measure a liability based on the existing legislation at the date of the financial statements, which may include qualifying criteria and may limit the obligation to a monthly payment (old age social security payments) for which the liability would be for one month at a time. Consideration would have to be given to a subsequent event if legislation that affected the determination of the liability was approved after the fiscal year end but before the date of the audit report.	Respondent view that position should be assessed on existing legislation at date of financial statements clear, but ambiguous whether this assumption should be explicitly incorporated in definition.
030	B	No. HoTARAC does not believe the definition of a liability should include an assumption about the role that sovereign power plays, as there are various legal structures and dynamics across countries. However, this notion may be considered as part of a disclosure requirement in a relevant IPSAS..	See Memorandum, paragraphs 78-81.
031	B	As noted in specific matters for comment 4 and 9, rights and obligations should be assessed at a point in time, i.e. at reporting date. As a result, obligations should be assessed based on contracts and legislation in force at the reporting date. The existence of an obligation cannot be negated by future changes that may or may not be made and approved by a government.	See Memorandum, paragraphs 78-81.

R#	CATE-GORY	COMMENTS ON SMC 9(c)	STAFF COMMENT
032	D	*Did not comment on this SMC.*	
033	C	The definition of a liability can included but I don´t know if more practical in this case.	
034	A	Yes, we feel that the definition of a liability should include an assumption about the role that sovereign power plans. Typically, we would expect the legislation in effect at the reporting date would be the appropriate reference point with some allowance for changes: (1) between the statement date and the release date, as well; (2) if there are any changes that have been announced and/ or approved but may not be effective (i.e. may not have received royal assent).	See Memorandum, paragraphs 68-71.
035	D	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**5 (18%)**
(B) NO	**21 (78%)**
(C) NO CLEAR VIEW EXPRESSED	**1 (4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(D) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 10(a)	STAFF COMMENT
001	A	ACAG recommends that the Conceptual Framework provide additional emphasis on the significance of materiality based on the context and nature of an item because this is likely to be of particular importance for public sector entities.	Referred to in Memorandum, paragraph 119.
002	B	We have not identified any further issues.	
003	A	Including in the sequence chart the concept of accrual as expressed in the "services rendered or goods received" table and its correlative "Recipients approved for eligibility". (Paragraph Reference 3.45)	Referred to in Memorandum, paragraph 119.
004	B	NAO is of the opinion that there are no additional characteristics that have not been identified that you believe are essential to the development of a liability definition.	
005	B	We do not believe that there are other additional characteristics that are essential to the development of a liability definition.	
006	D	*Did not comment on this SMC.*	
007	A	Three essential characteristics proposed by the IASB are, 'present', 'economic obligation' and 'obligor'. 'Obligor' may not be adequately covered by the IPSASB.	Referred to in Memorandum, paragraph 119.
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 10(a)	STAFF COMMENT
011	B	We have no additional comments to make.	
012	A	Yes, here the question is raised in respect of investment grants being carried as liabilities (analogous question for the *assets).*	Referred to in Memorandum, paragraph 119.
013	B	No.	
014	B	The CNOCP considers that there are no other essential characteristics for the development of a liability definition.	
015	B	No further comments.	
016	D	*Did not comment on this SMC.*	
017	B	No.	
018	B	The Joint Accounting Bodies have not identified any additional characteristics or other relevant issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of a liability.	
019	B	No comment.	
020	B	We do not believe that there are other additional characteristics that are essential to the development of a liability definition.	
021	B	We consider that the notion of unconditional obligations is essential to the development of a liability definition. We acknowledge that public sector entities have a broader range of obligations than private sector entities, particularly in respect of social benefits. As discussed in the preceding matter for comment, a generic definition of a liability could lead to some of these broader obligations being identified as liabilities. Recognition would remain a separate issue.	Referred to in Memorandum, paragraph 119.
022	A	*Did not comment on this SMC.*	
023	D	No.	
024	B	There are no other characteristics that we would propose.	
025	B	The AASB has not identified any additional characteristics that are essential to the development of the definition of a liability.	
026	B	The DGFiP did not identify any essential additional characteristics to define a liability.	

R#	CATE-GORY	COMMENTS ON SMC 10(a)	STAFF COMMENT
027	B	The legal character of an obligation is an essential factor.	
028	B	In our view, there are no additional characteristics essential to the development of a liability definition.	
029	D	*Did not comment on this SMC.*	
030	B	None identified, subject to our comments above.	
031	B	We could not identify any additional characteristics or other issues that require consideration in the development of a definition for liabilities.	
032	D	*Did not comment on this SMC.*	
033	C	This comments is the same for number 5 "I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot contain these questions, isn´t responsibility of IPSASB-IFAC".	
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

SMC 10(b): Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**9 (36%)**
(B) NO	**15 (60%)**
(C) NO CLEAR VIEW EXPRESSED	**1 (4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**25 (100%)**
(D) DID NOT COMMENT	**10**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 10(b)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	D	*Did not comment on this SMC.*	
004	B	None.	
005	A	The nature of certain complex public sector programs, such as social benefit programs, should be considered independently from the liability definition. Attempting to consider these programs within the current concept of liabilities could have significant implications for governments and warrants separate analysis and discussion to review the uniqueness of these programs.	Referred to in Memorandum, paragraph 122.
006	D	*Did not comment on this SMC.*	
007	B	No other issue has been identified.	
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no additional comments to make.	
012	B	No, no other issues are apparent.	

R#	CATE-GORY	COMMENTS ON SMC 10(b)	STAFF COMMENT
013	B	No.	
014	A	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).	Intervention liabilities referred to in Memorandum, paragraph 122.
015	B	No further comments.	
016	D	*Did not comment on this SMC.*	
017	A	No, although in the absence of an agreed definition we suggest that the discussion of public sector liabilities must, like the private sector discussions of the distinction between provisions and contingent liabilities, have regard to significant commitments which, while possibly avoidable or otherwise not recognisable as liabilities, are planned as part of the ongoing responsibilities of the reporting entity.	Referred to in Memorandum, paragraph 122.
018	A	The Joint Accounting Bodies have not identified any additional characteristics or other relevant issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of a liability.	
019	A	The Task Force recommends the IPSASB to take a conservative approach while exploring the possibility of expanding types of obligations which can be classified as liabilities in GPFSs. Many operational processes and economic transactions of public sector organizations are subject to significant discretion, presumably much more so than in private sector entities. Many public sector organizations carry out tasks that directly impact lives of hundreds of millions of people in various regions of the world, and hence they are subjected to increased level of scrutiny from donors, recipients and general public. These organizations also often have to divert their activities and resources from initial plan to address people's needs triggered by unexpected events and problems, like natural disasters or new areas of military conflict. It will not be possible or practical to have a comprehensive list of all liabilities that organizations of such scale while recognizing and measuring these liabilities completely and reliably, with reasonable cost/benefit balance. Therefore, the position of the Task Force is that IPSASB should only consider introduction of new or expanded concepts to this element of financial statements if there is an intention to supplement them with in-depth analysis for all preparers of GPFSs who wish to	

R#	CATE-GORY	COMMENTS ON SMC 10(b)	STAFF COMMENT
		conform to the Conceptual Framework.	
020	A	The nature of certain complex public sector programs, such as social benefit programs, should be considered independently from the liability definition. Attempting to consider these programs within the current concept of liabilities could have significant implications for governments and warrants separate analysis and discussion to review the uniqueness of these programs, in particular, the need to match future expenses related to social benefit programs against future tax and/or premium revenues to be charged to finance the future payments. It would not be appropriate to recognize liabilities based on current eligibility or actuarially-derived estimates in the current year's financial statements if the future revenue streams are not also recognized. In our view, it would be preferable not to record any future year amounts related to social benefit payments but rather to recognize the amounts as they are payable and receivable in the future.	Referred to in Memorandum, paragraph 122.
021	D	*Did not comment on this SMC.*	
022	D	*Did not comment on this SMC.*	
023	A	Consider possible linkages with the Exposure Draft, "Key Characteristics of the Public Sector", approved at the March 2011 meeting. Explicit cross referencing with the Key Characteristics ED would strengthen the substance of the framework as one designed for the public sector. Perhaps each document issued could have a table that indicates the implications of the key characteristics for the principles set out in the document. This summary table could then be used when all of the pieces of the framework are put together to develop a matrix that outlines all of the implications of the key characteristics of the public sector.	Referred to in Memorandum, paragraph 122.
024	B	There are no other relevant issues that we would propose.	
025	B	Nor has it identified any other issues that need to be considered.	
026	A	Because of its sovereign missions and its missions of economic and social regulator, the public sector entity presents the specificity of having numerous multiannual commitments. These commitments will be recorded as liabilities of the accounting period only if the attribution conditions are satisfied during this period and thus it is not possible for the public entity to escape it. Should the opposite occur, these commitments will give rise to an information in the notes of the financial statements.	
027	A	The legal character of an obligation is an essential factor.	

R#	CATE-GORY	COMMENTS ON SMC 10(b)	STAFF COMMENT
028	B	In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of liabilities.	
029	D	*Did not comment on this SMC.*	
030	B	None identified, subject to our comments above.	
031	B	We could not identify any additional characteristics or other issues that require consideration in the development of a definition for liabilities.	
032	D	*Did not comment on this SMC.*	
033	C	This comments is the same for number 5 "I observed that the IPSASB will be have a space for new characteristics for don´t have problems, because the IFAC don´t has responsibility for described every situations, is very important specific this point for users of the IPSASB, I think this, I don´t know. I think that proposal cannot contain these questions, isn´t responsibility of IPSASB-IFAC".	
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

SMC 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)?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) IDENTIFY INFLOWS AND OUTFLOWS "APPLICABLE" TO CURRENT PERIOD (REVENUE AND EXPENSE-LED)	**14 (41%)**
(B) CHANGES IN NET ASSETS (ASSET AND LIABILITY-LED)	**18 (53%)**
(C) ANOTHER APPROACH	**1 (3%)**
(D) NO CLEAR VIEW EXPRESSED	**1 (3%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**34 (100%)**
(E) DID NOT COMMENT	**1**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
001	A	ACAG supports a revenue and expense-led approach. This is because traditional financial reports are driven through the use of historical information and act as an accountability mechanism for users. This is mainly achieved through the statement of financial performance which can be used to compare actual performance of Government against budgeted expectations. Within this context, a revenue and expense-led approach ensures the focus remains on this statement. It allows specific period inflows to be linked to outflows and highlight the surplus or shortfall which relates to current period service delivery. This approach also ensures any amounts received or spent on future service delivery is deferred and recognised in those years. Therefore, ACAG supports inflows and outflows being defined as "applicable to" the current period.	View on traditional primacy of statement of financial performance in public sector noted but not advocated..
002	B	We believe that the elements of financial performance should be defined in terms of changes in net assets (excluding transactions with equity interests), and not in terms of inflows and outflows that are "applicable to" the current period. Adoption of a revenue and expense-led view would be a radical departure from the Conceptual Frameworks adopted by other standard-setters. Therefore, it should, in our view, only be contemplated if the case to change that approach is compelling enough, that is, there are clear	The revenue and expense-led approach may not have been adopted by private sector standard setters, but it has been implemented by GASB and some consider that it reflects public sector

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
		deficiencies in the asset and liability-led approach that cannot be resolved by any other means. We agree that information on financial performance is of great significance, and developing the most useful means of conveying that information is one of the most important challenges for accounting standard-setters. The discussion in the Consultation Paper envisages 'financial performance' being encapsulated in a single number (for example, in paragraph 4.4). While it may be the case that in practice attention is excessively focused on 'the bottom line' we question whether a single number can ever convey significant information about a large and diverse organisation. Rather than attempt to provide a better 'bottom line' in our view it is likely to be more productive to secure useful information on relevant components of financial performance. In addition, financial reports need to be supplemented by narrative reports drawing attention to significant features of financial performance (such as expenses that will provide benefits in the future but do not result in recognised assets) and also to non-financial measures of performance.	characteristics better than the asset and liability-led approach. Staff acknowledges this point. The rationale is why Framework-ED1 has proposed a more comprehensive scope of financial reporting.
003	C	In this section it is important to distinguish the face of budgetary performance from the face of equity performance, where different approaches should be applied. (Paragraph Reference 4.1,4.2,4.3 and 4.4) **Revenue and Expense-Led Approach.** This approach is applicable to the budget performance. (Paragraph Reference 4.6 and 4.20) **Asset and Liability-Led Approach.** Applicable approach to equity performance.(Paragraph Reference 4.9 and 4.24) In this section it is important to distinguish the face of association with the budgetary period from the equity period, where different approaches should be applied. (Paragraph Reference 4.30)	Referred to in Framework, paragraph 16.
004	A	NAO opines that revenues and expenses are to be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach).	See Memorandum paragraphs 15-18.
005	A	We believe that revenues and expenses should be derived from a revenue and expense led approach.	See Memorandum paragraphs 15-18.
006	B	In our opinion revenues and expenses should primarily be determined by changes in net assets defined as resources and obligations.	See Memorandum paragraphs 15-18.
007	B	NSW Treasury favors an asset and liability-led approach, which is consistent with the approach taken by the current IASB definition and revenue recognition project.	See Memorandum paragraphs 15-18.

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
008	D	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.	This comment indicates that deferrals occur under the asset and liability-led approach, a point sometimes made by proponents of the revenue and expense-led approach. This key issue is the criteria for justifying such deferrals. However, see Respondent 25 for another view from a strong proponent of asset and liability-led approach.
009	A	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.	See Memorandum paragraphs 15-18.
010	B	In respect of Specific Matter for Comment nos. 11 and 14, the IDW favors the asset and liability led approach.	See Memorandum paragraphs 15-18.
011	B	We would support an asset and liability-led approach to revenues and expenses.	See Memorandum paragraphs 15-18.
012	A	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	Acknowledged that traditionally statement of financial performance has been seen as more important. This is not necessarily conducive to accountability and decision-making.

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
		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.	
013	B	We consider that revenues and expenses should be determined by identifying changes in net assets during the period.	See Memorandum paragraphs 15-24.
014	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.** 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.	See Memorandum paragraphs 15-18.. Staff assumes that the response supports the use of deferrals.
015	B	Revenues and expenses should be determined based on changes in net assets, defined as resources and obligations (asset and liability-led approach). As far as we can see, this is the approach predominating at an international level and theoretically convincing.	See Memorandum paragraphs 15-24
016	A	In the Danish public sector accounting requirements a modified transaction-based approach (revenue and expense-led approach) has been chosen.	Staff not sure what a 'modified transaction-based approach' entails.
017	B	CIPFA considers that the most coherent and useful approach is to determine revenue and expenses by reference to changes in net assets during the period	See Memorandum paragraphs 15-18.
018	B	The Joint Accounting Bodies consider that revenues and expenses should be determined by an 'asset and liability-led approach'.	See Memorandum paragraphs 15-18.
019	B	IPSAS 23 promulgates that revenues are to be recognized at the same time as the relating asset is recognized, which is an essence of an asset and liability-led approach. The Task Force therefore recommends that revenues continue to be recognized on an asset and liability-led approach. Pending IPSASB feedback to the request for new/revised examples which would depict impact of using both recognition approaches to non-capitalizable expenses (comments to the specific matter 13 (b) below), the Task Force tentatively supports an asset and liability-led approach for recognition of expenses.	See Memorandum paragraphs 15-18.

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
020	A	We support the use of a revenue and expense-led approach determined by identifying inflows and outflows applicable to the period. We believe that this approach is consistent with the budgetary framework under which governments are held accountable and is most appropriate in a public sector context. The recent global economic crisis and recovery has emphasized the need for balanced or improved budget predictions in the public sector and has resulted in increased accountability in the public sector for spending measured against budget. While one may argue that budgets are used in the private sector where standards have recently put increased focus on the asset/liability approach, the key difference is that private sector budgets are not generally published and performance is assessed on various factors one of which is net income; however, net equity as a proxy of an entity's worth is also assessed. In the public sector, given the ability to tax and the capacity to raise debt financing, the use of fair value measure for assets and liabilities has less relevance; whereas achieving budgeted revenues and expenses is one of the key performance metrics against which governments are held to account. A focus on revenue and expense provides greater predictability within this environment and provides a better measure of a government's effectiveness and efficiency in delivering services to citizens. The emphasis on revenue and expenses and inflows and outflows better supports accountability as to whether the government's established tax rates support delivery of services to citizens. An asset and liability-led approach could introduce additional volatility resulting from changes in the value of assets and liabilities that cannot be predicted by governments and do not provide useful information for assessing a government's performance related to its key objectives of providing effective and efficient service delivery to citizens. We would also encourage IPSASB to consider the concept of deferred inflows and outflows in support of the approach to report inflows and outflows applicable to the period.	Staff notes point that revenue and expenses-led approach aligns better with many budgetary frameworks. Staff also notes that revenue and expenses-led approach does not lead to volatility with which some associate the asset and liability-led approach.
021	B	We consider that revenues and expenses should be determined by an 'asset and liability-led approach'. We are strongly of the view that assets and liabilities should be defined in relation to economic resources and economic obligations and that revenues and expenses should reflect changes in those resources and obligations.	See Memorandum paragraphs 15-18.
022	E	*Did not comment on this SMC.*	
023	B	Revenues and expenses should be determined by changes in net assets, defined as resources and obligations during the current period derived from an asset and liability led approach. This is the current approach in the existing conceptual framework in the Canadian PSA Handbook. However, PSAB has initiated a project to review the concepts underlying financial performance in that framework and may be in a position to share developments in that project with the	See Memorandum paragraphs 15-18.

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
		IPSASB in the future.	
024	B	**This is an extremely esoteric discussion. In most circumstances, the two approaches should yield identical results.** Where there is a difference we prefer the A&L approach since it more accurately reflects their values at the end of the period (and they are more easily verified). However, both examples referred to in paragraph 4.12 illustrate the differences in the reporting of revenue under the two approaches. More examples are needed to illustrate the differences in the reporting of expenses. This is especially true of deferred outflows for pensions and derivatives. Also, we believe the example in paragraph 4.13 is a bad example of a deferred inflow and outflow. It seems to us that revenue and expense would be the same under both approaches since the revenue would be recognized when the condition (construction) is met and would not be deferred to a future period. Further, under current accounting practices, deferred revenue would be recognized at the time the tax receivable is recorded for the example in paragraph 4.16. Thus both approaches end up with the same result. There is need for example(s) that more clearly identify circumstances where the alternate approaches can yield different results. In most situation the difference is more about process than results. In addition, we do not believe that the statement in paragraph 4.21 is true since obligations under the R&E approach would also be passed on to future taxpayers just as under the A&L approach. Finally, we don't agree with the last sentence in paragraph 4.37 and suggest that it be eliminated.	Referred to in Memorandum, paragraph 16. Staff acknowledges that the area is complex, but considered that the Consultation Paper demonstrated that the two approaches do not yield the same result on an annual financial reporting basis.
025	B	The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities. It therefore supports the 'asset and liability-led approach' for identifying the elements of the statement of financial position and for determining the amounts of revenues and expenses, and endorses the comments in paragraphs 4.24 – 4.25 of the CP. Assets and liabilities are economic phenomena that have a dimension that is external to the entity. Deferred outflows and deferred inflows do not possess that quality.	Noted view that deferrals are not economic phenomena possessing an external dimension.
026	A	Revenues and expenses should be determined by identifying which inflows and outflows are "applicable to" the current period.	See Memorandum paragraphs 15-18.
027	B	The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an	Staff notes view that not all changes in assets and liabilities should have an impact on operational

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
		asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.	performance.
028	B	In our view, revenues and expenses should be determined by changes in net assets (that is an asset and liability-led approach). However, in preferring that approach, we think it will be important to ensure that the way in which revenues and expenses are presented in a statement of financial performance integrates well with broader aspects of performance that should be described in non-financial terms. There are two matters in the discussion preceding question 11 that we have issues with. The first is the table explaining the asset and liability-led approach at paragraph 4.16. We do not agree with the 20X3 column. In our view, an asset and liability-led approach would take into account the time-bound nature of the December 1, 20X3 transaction and as a result recognise a liability of CU100 as at December 31, 20X3. The second matter is the implication drawn from paragraph 4.23. That paragraph notes that deferring items reduces volatility in reported performance. By implication that statement suggests volatility in financial performance is something to be minimised. In our view, volatility is not something to be minimised, and there should not be an objective of trying to reduce volatility for its own sake. Financial reporting needs to faithfully represent the underlying reality of transactions, regardless of whether that creates volatility in reported performance.	Staff notes the view that service performance information is necessary to evaluate broader aspects of performance. Referred to in Memorandum, paragraph 16. Note view that minimisation of volatility inappropriate if it reflects the economic substance.
029	A	The Province supports the income and expenses-led approach which is consistent with the stated position in the Consultation Paper that government does not have capital. The cost basis of measurement is appropriate when there is no capital and therefore no basis for applying capital maintenance principles.	Measurement is the subject of Phase 3.

R#	CATE-GORY	COMMENTS ON SMC 11(a)	STAFF COMMENT
030	B	HoTARAC supports the asset and liability-led approach and therefore revenue and expenses should be determined by changes in assets and liabilities over the period. HoTARAC acknowledges that performance reporting in public sector has a different role than for private sector, although it should be an accountability tool it is also important to provide information on the efficiency or inefficiency as the case maybe in using the entity's resources to deliver services to the public. A net cost of services presentation can help this. Further, in the public sector the financial performance statement is the main focus, the balance sheet is viewed by GPFRs users as secondary. However, HoTARAC supports the asset and liability-led approach as it is conceptually superior to the proposed alternative and all changes in the balance sheet are reflected in the financial performance statement, albeit HoTARAC prefers the reporting of some transactions separately on the face of the statement (e.g. IASB - Other Comprehensive Income or GFS - Other Economic Flows).	Staff notes support of asset and liability-led approach despite public sector focus on statement of financial performance. Staff notes the view that service performance information is necessary to evaluate broader aspects of performance.
031	B	We support the assets and liabilities approach.	See Memorandum paragraphs 15-18.
032	A	Therefore, we believe that as long as the requirement of a certain level of faithful representation is met, revenues and expenses should be determined by the revenue and expense-led approach to supplement the asset and liability-led approach.	Staff unclear what such an approach would entail.
033	A	I think that initially the use for revenues and expenses definition which inflows and outflows have to observed the impact in the structure of the others IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	A	Nova Scotia sees merit in determining revenues and expenses by identifying which inflows and outflows are "applicable to" the current period however we do not have a significant issue with an asset and liability-led approach. Both methods, with proper framework and strong definitions, should lead to a similar place. We do feel that changes in the resources of the Province should flow through the statement of operations as a financial measure of that fiscal period	Staff disagrees with view that application of the two approaches will produce same or similar results. This may indicate the need for further explanation of the approaches.
035	A	It is our view that the Conceptual Framework should be equally aligned with both objectives. We prefer the R&E approach but we feel it is important to assign cash flows to the applicable	Referred to in Memorandum, paragraph 16.

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		period. However we also strongly believe that the statement of financial position should only include assets and liabilities that have real economic substance.	

SMC11(b): What arguments do you consider most important in coming to your decision on the preferred approach?

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001	N/A	Refer above.	
002		In addition to the points made in connection with our response to (a) above, we find particularly cogent the arguments in paragraph 4.25: the asset and liability-led view is relatively robust, free from subjectivity and avoids the considerable difficulties of defining "applicability to the current period".	See Memorandum paragraphs 19-24..
003		*Did not comment on this SMC.*	
004		NAO opines that this approach supports the concept that revenue and expenses are recognised during the period to which they relate. This is not to be considered as a smoothing of revenue and expenditure over a number of periods, but matching the revenue received relating to a particular period with the expenditure for that period. NAO is also of the opinion that the revenue and expense-led approach results in a more accurate measure of inflows and outflows of the public sector entity and represents a more faithful representation of the results of the entity. NAO believes that the Asset and Liability Approach results in more volatility in measuring performance.	Staff not fully sure what the difference is between smoothing and matching, but presumes that the main objective of smoothing is the elimination or reduction of volatility. Staff not convinced that reducing volatility is appropriate if it involves a distortion of the underlying economic reality.
005		Financial accountability reporting should reflect the fiscal accountability model. Canadian governments and public sector entities operate under balanced budget frameworks and, therefore, budget documents focus on the statement of operations and do not typically include a statement of financial position. Having a statement of operations that is entirely focused on an asset-liability led approach is inconsistent with the accountability framework of public sector reporting for both governments and public sector organizations. Most service delivery organizations do not work like commercial enterprises to build value on their balance sheet. They have a mandate to take public money and use it on the delivery of services, and the balance sheet represents timing differences on the collection of revenue and the payment of expenses, as well accumulated surplus to support risk management. Many public sector organizations have unused funding recovered by the fund provider. As such, any inter-period equity or deficit created by the current asset-liability led approach can impact the surplus/(deficit) in a way that does not	Fiscal frameworks vary globally, although common features can be identified. Staff considers that a statement of financial position is essential to meet user needs.

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		reflect the accountability model for public sector entities in Ontario to operate on a balanced budget. In this regard, it will be important for the IPSASB to develop a conceptual framework that reflects the uniqueness of the public sector, including as a critical component the fiscal accountability frameworks that governments operate and which continue to be the focus for determining user needs in developing high quality accounting standards that best meet the needs of users.	
006		It is important that the financial statements can be used for performance management as well as for evaluation of the financial performance within the entity.	Noted. However, the primary focus of the financial statements should be on external users.
007		NSW Treasury prefers an asset and liability-led approach for the following reasons: • This approach is consistent with the IASB approach. • Based on the AASB's Process for Modifying IFRSs for PBE/NFP, we only recommend departing from IFRSs for public sector specific reasons. • '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.	Noted.
008		*Did not comment on this SMC.*	
009		Argument in 4.21 is the most significant one.	Support of taxpayer focus noted
010		*Did not comment on this SMC.*	
011		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.	See Memorandum paragraphs 19-24.
012		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	

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		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).	Measurement is part of Phase 3
013		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.	Noted view that revenue and expense-led approach more susceptible to subjective judgments.
014		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.	View that approach aligned to budgetary framework better suited to needs of primary users noted.
015		The asset and liability-led (A&L) approach is theoretically convincing because of the fact that "net assets" has its own meaning and is interpretable only under the A&L approach. Finally, under the R&E approach, the statement of financial position (balance sheet) is reduced to a mere deferral account. At the same time it must be borne in mind that the period net income (whether in the private or public sector) will never be the generally accepted "true" net income for the period, regardless of whether deferred outflows and deferred inflows are defined as separate elements. From a theoretical point of view the generally accepted "true" net income for a period would be the change in the discounted cash flow, which cannot be determined from the balance sheet.	Staff thinks that it is an exaggeration to suggest that, under the R & E-led approach the statement of financial position is merely a deferral account.

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		However, the theoretical discussion of the two concepts is futile. In the practical application the two concepts cannot be clearly distinguished. It is striking that in the examples in paragraph 4.16 assets are always accounted for at the same amount in both approaches. Moreover, it has to be stressed that the charm of the double-entry bookkeeping is the systematic link between revenue/expenses and capital account. It follows that both elements are equally essential.	Staff considers that the example in paragraph 4.16 could have been clearer, but in year 20X3 the accounting differed between the two models
016		This choice is based on the view that purpose of the financial statement is to compare and monitor the application of resources and the performance of central government institutions. Furthermore the purpose of the Danish accounting requirements is to support good business management in the public sector. The area of donations is an example where Denmark deviates from the pure revenue and expense-led approach, since significant donations are not allowed to affect the income statement as income or expenses regarding depreciations on donated assets. The deviation is based on the purpose stated in the general comments - the ability to estimate pricing on public services. Other reasons for deviating from the basic principles regarding elements and recognition could be considerations regarding the measurement of the use of appropriations. The Danish requirements aims at creating visibility of the cost related to different activities rather than to ensure a true and fair valuation of balance sheet, because the focus is different from the situation in the private sector where focus is more on company valuation, future earning capacity and financial performance as an expression of return on invested capital. As mentioned in the general comments in this memo, there are also exceptions regarding heritage assets. The heritage assets do not directly contribute to the production in the public institutions and therefore they are not recognized with value on the balance sheet. Additions to the heritage	Noted approach to donations, although Staff has reservations about the exclusion of donations and donated assets from income statement. Measurement is addressed in Phase 3.

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		assets are recognized and measured by cost value, but at the end of the financial year the value is regulated to zero in value to not impact the balance sheet.	
017		While this is generally represented as the assets and liabilities approach it is not principally focused on assets and liabilities as ends in themselves. The approach provides a coherent and consistent way of defining revenue and expense flows to reflect economic substance, without the difficulties and risk of bias inherent in defining 'applicability'.	See memorandum, paragraphs 19-24.
018		We believe that economic benefits or service potential as well as the obligation to transfer them are the essential characteristics of the asset/liability and that revenues and expenses should reflect changes in those economic benefits or service potential and obligations. We agree with the views expressed at paragraph 4.11 of the CF CP Elements and Recognition that assets and liabilities are the principal building blocks of the system to give meaning to financial performance.	See memorandum, paragraphs 19-24.
019		Both approaches have their advantages as well as weaknesses. Recognition of revenues in IPSAS, as the latter currently stand, appears to be based on an asset and liability-led approach. This approach is considered by many preparers of GPFS as more transparent for reporting non-exchange transactions. Provided that there are no overwhelming benefits of changing currently used approach to a revenue and expense-led approach, the Task Force's position on this specific matter for comment is to maintain current approach. It should also be noted that a change to a different approach would require an investment of considerable additional efforts and resources by preparers of GPFSs who already comply with IPSAS or intend to implement the standards in foreseeable future. Had this change been viewed as a key measure which would allow reporting entities to improve usefulness of their GPFSs for users, additional work could have been justified.	Some argue that A &L-led approach is not suited for reporting non-exchange transactions.
020		As noted in our comments on the previous question, we believe that the budgetary framework under which governments are held accountable is the key factor supporting our preferred approach. The revenue and expense-led approach provides better reporting in a service delivery environment as it focuses on the statement of operations and the effectiveness of government spending to provide services to the public. It also provides relevant information on taxes and revenues earned in the year and how funds were spent allowing for better information for users to assess if the taxes earned were sufficient to cover expenses incurred during the period. As noted above, it is also an appropriate model for public sector entities operating under balanced budget legislation. An asset and liability-led approach, where all changes in assets and liabilities are recognized through the statement of operations, introduces unrealized gains and losses to the	Alignment with budgetary framework and service performance noted.

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		statement of operations that would not provide useful information for assessing a government's performance with regard to service delivery performance.	
021		We note that some of the issues being raised today are the same as those raised by constituents when the FASB first sought feedback on the definitions of elements in the early 1970s. At that time some constituents expressed concern that if items that do not meet the definition of an asset are included in expenses of the current period, they may distort the income of other periods in which the items more properly belong. This issue is still being debated in the context of the GASB financial resources approach with outflows of resources that are intrinsically related to future services but which do not meet the definition of an asset being one of the items that may give rise to a deferred inflow. We agree that it is important that financial statements provide information about such transactions, but we do not agree with the recognition of such items as deferred inflows and outflows. We believe that the most conceptually defensible approach is to develop robust definitions of assets and liabilities and then consider how to address any information needs that are not satisfied following application of those definitions, through perhaps presentation and disclosures. Although the term 'asset and liability-led approach' has been used by a number of standard setters, we would like to stress that we do not consider that this approach is concerned predominantly with reporting financial position. We consider that revenues and expenses comprise the financial effects of an entity's current period accomplishments and that the 'asset and liability-led approach' gives equal importance to the reporting of financial position (a "stock" concept) and financial performance (a "flows" concept). The two views simply reflect different perspectives on the financial effects of an entity's current period accomplishments. We are concerned with the focus of the 'revenue and expense-led approach' on achieving 'inter-period equity', and its adoption of the view that "the principle that taxpayers pay only for the services they receive and not pass on obligations to future taxpayers should ground any measure of financial performance". Specifically, we are concerned that this approach is based on a value judgment about who should pay for services rendered in a particular period and a direct link between funding decisions and recognition of liabilities. We acknowledge that inter-period equity considerations are important for governments and that financial statements may be used in making assessments of inter-period equity. However, this does not mean that notions of inter-period equity should influence financial reporting element definitions.	Point that debate goes back to at least early 70s noted. Staff also notes view that considerations of inter-period equity should not drive financial reporting.
022		*Did not comment on this SMC.*	

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023		An asset and liability-led approach is grounded in the recognition of the substance of identifiable economic phenomena when they occur. This approach is most likely to provide the foundation for a theoretically sound, internally consistent set of public sector GAAP with the least inherent subjectivity. We agree with the points set out in paragraphs 4.24-.26 in the CP. We also offer the following elaborations and additional comments. The FASB in its 1976 conceptual framework papers stated (emphasis added): A conceptual framework is a "constitution", a coherent set of interrelated **objectives** and **fundamentals** that can lead to consistent standards and that prescribes the nature, function and limits of financial accounting and financial statements. The **objectives** identify the goals and purposes of accounting. The **fundamentals** are the underlying concepts of accounting, concepts that guide the selection of events to be accounted for, the measurement of those events and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting and applying accounting and reporting standards. We are concerned that a revenue and expenses-led approach to financial performance may be a more ad hoc, less theoretically defensible basis for the standard setting process. It will fall to the Board to decide what goes into the categories of deferred inflows and outflows and this approach may be inherently subjective, somewhat arbitrary and the results may be inconsistent as these categories will be available for use by different Boards over time facing different issues and different controversies with its constituents. There is potential for these categories to become dumping grounds for items that a Board cannot achieve consensus for reporting in the statement of annual results. If a revenue-expense-led approach is chosen, the IPSASB will need to establish: • the basis for setting up a deferral (rules, criteria); • the basis for recognizing a deferral in the statement of annual results (i.e., when, how and why to release deferrals for recognition in revenue and expenses); • what the deferrals actually represent to users; and • what the measures for each of the financial statements mean (i.e., individual financial statement indicators) given the possible variety of items included in the deferral categories. Some of the arguments presented in favour of a revenue and expense-led approach to financial performance cite the importance of the matching of costs to the period services are provided and the related matching of revenues to the costs they were generated to finance, as well as the need to avoid the distortion of periodic results. The achievement of inter-period/generational equity is	Noted, especially historical background and view that R & E-led approach is more subjective.

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		also cited as a reason for this approach to be adopted in the public sector so that governments can manage operations to meet this equity objective for the benefit of both current and future taxpayers. Standards set using a revenue-expense-led approach may be based on practice, experience, and general acceptance that emphasizes a preference for matching and non-distortion of annual results. These concepts are open-ended. It is difficult to set any limits on them and it is a subjective assessment to determine if proper matching and non-distortion have been achieved. Although arguments may be made that a cost recovery or inter-period equity message is provided by the statement of annual results under this approach, what is being measured by the resulting statement of financial position would be difficult to identify. Accounting must be neutral, and if financial statements are to represent faithfully an entity's annual results, the presence of volatility must be reported to users. Minimizing the volatile results of actual economic events should be primarily a matter for government/management policy and strategy, rather than for accounting standards. To the extent volatile economic events actually occur, the results should be reflected in the financial statements. This is crucial if the objective of providing information in financial statements for accountability purposes is to be achieved. Standards based on an asset and liability led view should not be rejected because their implementation might cause a government/entity's management to make different decisions. One of the two primary reasons for the existence of financial information for users is to help them in making decisions. If stability or volatility of financial results is an important consideration to some users, all the more reason that the degree of stability or volatility should be faithfully reflected in the financial statements. ….. An asset and liability-led approach is not a "balance sheet" view that aims to diminish the value of the annual results statement. The asset and liability-led approach is an annual results viewpoint with the discipline of having the annual surplus/deficit be the result of changes in assets and liabilities. Measuring annual results as the difference in net assets provides an anchor to resolving difficult accounting questions and the anchor to sound financial reporting. By ensuring that items that do not meet the definitions of assets and liabilities are not recognized on the statement of financial position, this approach also ensures that changes in these "*whatchmacallits"* do not flow through the operating statement and distort/manage annual results. Matching is not an objective in itself nor is it a fundamental requirement of accrual accounting.	

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		The asset and liability-led approach to financial performance does allow matching as long as it does not create items on the statement of financial position that do not meet the definition of an asset or a liability. The argument that a revenue-expense-led approach is necessary to achieve inter-period/generational equity generally looks at this equity from a very high level and with a forward-looking emphasis. The concept of inter-period/generational equity is usually described as evaluating the extent to which future taxpayers will have to deal with the fiscal consequences of current policies We feel that the IPSASB needs to examine the concept of inter-period or inter-generational equity and its role, if any, in general purpose financial statements (GPFS) and general purpose financial reports (GPFRs) before it is incorporated into any IPSAS or other guidance issued by the IPSASB. GPFS: The emphasis in the Canadian framework is to ensure that the full cost of services in the accounting period is reflected in the financial statements and that the full extent of a government's revenue raising for the period is reflected in the statements. **The question of cost recovery is a policy question and the standards do not presume that this is an objective in any particular year.** The extent of taxation and other revenue raising in a particular year is a public policy decision. The financing of government activities is not an accounting decision. The financial statements report the full extent of the government's revenue raising in the year, the full cost of services provided in the year, whether the government is maintaining its net assets in a particular year and the impact of the year's activities on the government's net debt as well as cash flow. Cost recovery is not an objective of the required financial statements in the PSA Handbook, and it is questionable whether such an assessment is possible at the high summary level of the financial statements. At the whole of government reporting level, a cost recovery objective may be seen as requiring inter-generational or inter-period equity. Some argue that financial statements can provide information about whether inter-generational or inter-period equity has been maintained. And, balanced budget requirements and the matching of revenues and expenses are often seen as integral to maintaining such equity. If users say that they want inter-period equity, they mean it only in the simplest sense. And, they tend to mean not passing on a burden to their children – they don't consider that they might be paying for benefits received by past generations. Most discussions of inter-period or inter-generational equity are future-focused. Inter-generational equity or even inter-period equity may be good concepts in theory but are very difficult to achieve in practice. **And again, a decision to manage government finances in**	

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		order to achieve "inter-generational equity" or "inter-period equity" is a policy decision, not an accounting one. The financial statements cannot provide an assessment of whether this is achieved, nor should accounting standards make the assumption that this is government's intention. In particular, assessments of such equity would go way beyond the operating statement of a government. Full information about the costs of services provided in a particular year might be good input into such an assessment and the extent to which a government is maintaining the net resources it needs to continue to provide services might also be good input information. But financial statements merely present a picture of what happened financially during the year (statement of operations, statement of change in net debt, statement of cash flow) and what resources/liabilities remain at the end of the year (statement of financial position). In Canada, government financial statements have a financial capital maintenance concept (in monetary terms – i.e., not adjusted for changes in purchasing power), which at most, tells users whether the government has maintained its net assets in financial terms after the activities of the accounting period have been taken into account. Good robust financial statements provide only part of the accountability picture for governments. Assessments of policy achievement and "inter-generational equity" or "inter-period equity" are beyond the scope of financial statements. GPFRs: However, such assessments might not be beyond the scope of broader government accountability reporting. If the IPSASB believes that assessment of inter-period/generational equity is an objective of financial reporting (all financial reporting in the public sector not just governments) then it should explicitly address how and where such an assessment might be provided. Finally, we do not believe that it is possible to define revenue and expenses without reference to change in assets. Even a liability definition generally refers to a sacrifice of economic benefits/resources. ….	
024		The most important element in evaluating financial performance through the use of performance measures is the total cost of services provided (the expenses). No example has been shown that expenses would be misstated if the A&L approach were adopted.	However, recognition of expenses differs under the two approaches.
025		An important reason why the AASB does not support the 'revenue and expense-led approach' is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements. The AASB is concerned that the discussion in paragraphs 4.4, 4.6 and 4.22 of the CP about the	Noted view that deferred inflows and outflows are accounting devices.

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		'revenue and expense-led approach' implies it is the only approach concerned with reporting current period financial performance. That approach defines revenues and expenses as "flows that relate to efforts of the current period" (paragraph 4.6). The logical implication is that the 'asset and liability-led approach' is concerned predominantly with reporting financial position, with reported financial performance being a by-product of that emphasis. However, the AASB considers that revenues and expenses comprise the financial effects of an entity's current period accomplishments and that the 'asset and liability-led approach' gives equal importance to the reporting of financial position and financial performance. The AASB is also concerned with the focus of the 'revenue and expense-led approach' on achieving 'inter-period equity', and its adoption of the view that "the principle that taxpayers pay only for the services they receive, and not pass on obligations to future taxpayers, should underlie any measure of financial performance" (paragraph 4.21). The AASB is particularly concerned that this approach is based on a value judgement about who should pay for services rendered in a particular period and its direct link between funding decisions and recognition. If a decision were made that taxpayers of a different period should pay for current period services, should the recognition principles change accordingly? The AASB thinks the recognition principles should not change, but is concerned that adopting the 'inter-period equity concept' may create a precedent for public policy decisions to determine recognition principles. Whilst the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, it does not consider the 'revenue and expense-led approach' to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an 'asset and liability-led approach', if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A 'revenue and expense-led approach', properly developed and in a form the AASB would find acceptable, might complement an 'asset and liability-led approach'. The AASB notes that the main objectives of the 'revenue and expense-led approach' are described as: (a) attributing the costs of services to the period in which the services are provided; and (b) attributing tax and other revenue to the period in which they were intended to finance the related costs (paragraph 4.8). However, the AASB notes other unrelated notions are implicit in the CP's discussion of the	

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		'revenue and expense-led approach'. For example, a 'likely realisation' notion seems to be applied to the recognition of gains and losses on assets [paragraph 4.31(d)]. When inflows of resources are not stipulated to be used to finance particular costs of services, attributing those inflows to particular costs of services would involve arbitrary allocations. For example, inflows of resources from general purpose taxes and grants without stipulations can be applied to meet costs of current period services, repay debts incurred in providing services in previous periods or meet the costs of providing services in future periods. Because cash is fungible, any allocation of those inflows to particular outflows would be arbitrary and intent-driven. Another illustration of this concern is Example 1 in paragraphs 4.13 – 4.15 of the CP. In that example, retention of the grant is conditional on construction of the library—that is, the inflow is required to finance an expenditure rather than an expense. However, under the revenue and expense-led approach, the grant revenue is recognised when the library is depreciated. Furthermore, it is unclear how the revenue and expense-led approach would be applied if a grant were stipulated as financing the purchase of a non-depreciable asset (e.g., land) or was in the form of 'seed money' for the acquisition of an asset that must be maintained and refurbished for an indefinite period. In these cases, would a deferred inflow be recognised indefinitely?	
026		The revenue and expense-led approach answers the objectives of the financial statements which consist in giving the information about the effective use of the resources raised during the period. Indeed, it is advisable that financial reporting primary users can follow the use made by the administration, of the taxes which they authorize through the Parliament and the other representative organs. This approach, which joins – as the asset and liability-led approach – within the framework of the accrual accounting, has to remain completely compatible with a patrimonial vision of the public entity. Indeed, revenue and expense recorded in income statement come to enrich mechanically the patrimonial elements of the balance sheet. A too theoretical presentation of the question would risk to create an opposition between the approaches, which would be inappropriate and could reduce the revenue and expense-led approach to a cash basis accounting system.	Noted
027		*Did not comment on this SMC.*	
028		In coming to our view about preferring the asset and liability-led approach, we were conscious that that approach aligns with the IASB's approach, and therefore will work better for public sector group reporting that incorporates GBEs (given that GBEs are directed to use IASB	Staff accepts that a different accounting treatment for GBEs gives rise to consolidation issues.

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		standards). Also in coming to our view, we felt that the revenue and expense-led approach was more open to manipulation, because it is not clear how to determine those flows that relate directly to the current period operations.	However, Staff does not think that this is an adequate rationale for aligning with the IASB approach.
029		Financial Performance: Revenue and Expense This is perhaps the most important component of this Consultation Paper because it discusses two approaches to measuring performance of government as either the asset liability-led approach or the revenue and expense-led approach. Although the paper does not specifically relate the two approaches discussed with capital maintenance principles it is necessary to do so to properly understand the differences in the proposed alternative approaches to reporting financial performance. The asset and liability-led approach defines the measurement of performance as being "the net result of all changes in the entity's resources and obligations during the period" while the income and expense-led approach defines the measurement of performance "as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period". The definition of the asset and liability-led approach is entirely consistent with the capital maintenance definition provided in the International Accounting Standards Board's (IASB) conceptual framework which states: *"Financial capital maintenance. Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period."* The IASB/IFRS Conceptual Framework describes capital maintenance as "the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss."	Staff agrees that this is a fundamental issue and acknowledges view that discussion should be better grounded in capital maintenance principles.

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		The IASB conceptual framework relates the measurement basis for assets and liabilities to capital maintenance principles and identifies market values as the appropriate capital maintenance measurement basis for financial capital, utilizing nominal monetary units. The IASB/IFRS Conceptual Framework also states "The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead these items are included in equity as capital maintenance adjustments or revaluation reserves." This is the basis of Accumulated Other Comprehensive Income and over which current debate in IASB/IFRS has raised the question of whether Other Comprehensive Income should no longer be a separate statement forming part of the analysis of the Equity Section of the balance sheet but instead should be combined with Operating Income in one financial statement of Comprehensive Income. The latter presentation of moving other comprehensive income out of equity and treating it as part of the measurement of comprehensive income is a step toward the theoretical position in the above IASB/IFRS definition of Financial Capital Maintenance. The revenue and expense-led approach is not described in this Consultation Paper in terms of its relationship to Capital or to Capital Maintenance principles nor is it described in the IASB/IFRS Conceptual Framework. The second Consultation Paper on Measurement of Assets and Liabilities in Financial Statements provides a chart linking the asset valuation basis to types of capital but not to capital maintenance. If the chart provided in the second Consultation Paper is expanded to include capital maintenance and the accounting for capital maintenance it would show the linkage between the revenue and expense-led approach to measuring performance to Capital and Capital Maintenance principles see Appendix B. This Consultation Paper comes to the conclusion that a government's net assets/net liabilities represents a residual amount and thus government does not have capital and logically if an entity does not have capital it would not apply capital maintenance principles. If capital maintenance is not an objective in setting or measuring performance goals then what measurement basis would be most appropriate? The province has indicated in its response to the Conceptual Framework Exposure Draft 1 that it "believes that general purpose financial statements are intended to provide accountability to the general public for the resources available to the government and the uses to which these resources were applied" and that "the financial statements convey the government's decisions and the impact of those decisions on the financial operations and financial position of the	

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		government". The government's views are entirely consistent with the Consultation Paper's definition of the income and expense-led approach, "as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period". To show what resources were raised directly from the public, through taxes; were raised on their behalf, through borrowing; or were raised through the sale of public assets and to demonstrate how those resources were spent to the betterment of the public the cost basis of measurement is most appropriate. To ensure that funds that were raised in one fiscal period for use in a subsequent fiscal period are accounted for properly, deferred accounts are necessary. The Province believes that it is important to convey to the public the decisions made by the government to raise taxes from the public, to borrow money on behalf of the public and to sell public assets for the purpose of providing goods and services to the public, this is accountability. The province does not support the view that government financial statements are intended to measure the "value" of the government at an arbitrary point in time to determine whether the government is "worth" more or less than it was at some other arbitrary point in time. Governments are not comparable to private sector enterprises that seek to increase shareholder value. Governments were not established to create or amass wealth in the name of the government itself; they are established to provide goods and services to the public, the mix of goods and services to be provided and to whom is a matter of public policy debate; and to raise resources to pay for the goods and services provided, the distribution of the burden of raising the resources is also a matter of public policy debate.	
030		HoTARAC supports the asset and liability-led approach due to representational faithfulness and objectivity, and notes that the asset and liability-led approach is consistent with the approach used under current Australian GAAP, IPSAS, IFRS and GFS. HoTARAC believes the concept of representational faithfulness is better aligned when financial statements' elements are based on objective measure of economic phenomena. This enhances the representation of resources and flows by requiring the reporting entity to assess information about economic events that have transpired during the reporting period. HoTARAC also supports the asset and liability-led approach for the reason outlined in paragraph 4.26, as it provides better focus on a public sector entity's resources available to provide future services, obligations to transfer resources to others, and the net resources available to finance future obligations. HoTARAC notes the comment in paragraph 4.27 that the concept of financial performance must	Referred to in Memorandum, paragraph 21.

R#	CATE-GORY	COMMENTS ON SMC 11(b)	STAFF COMMENT
		be selected to develop a definition of revenues and expenses. HoTARAC questions, however, on how revenue and expenses can be defined without reference to the concept of resources, rights and obligations that underpin the definition of assets and liabilities. Without a properly defined concept of wealth or resources, there is no focus on the economic events affecting wealth over the period and, consequently no measure of the efficient use of resource. This is particularly relevant to public sector entities where there is less focus on profit generation. HoTARAC acknowledges that the revenue and expenses-led approach has been pioneered by the US Government Accounting Standards Board, which allocates expenses to period in which the services are provided and revenues are attributed to the period in which they were intended to fund those services. However, it appears that the process of linking flows to the current period operations or provision of service/programs requires significant judgement by the entity and hence subjectivity is an issue that will impact on the understandability, consistency, and comparability of the information. HoTARAC has three main issues with the revenue expense-led approach: • the revenue and expense led approach applies a form of matching principle for its allocation of asset/liability to the current period based on current expenses. The rationale for the proposed expense and revenue allocation is not to reflect the actual economic phenomena, but as presented in the Consultation Paper, appears to be based on the view that revenue should match the expenses. This is a departure from the faithful representation qualitative characteristics (i.e. is it a true representation of the transaction that the revenue of the entity should match the expenses?). The allocation process itself is arbitrary and subjective, and the expense is often itself based on a subjective/estimates of the asset consumption (i.e. depreciation/amortisation); • there are consequences of this arbitrary allocation which impacts on the financial performance statement and its usefulness for users. For example, the assessment of the an entity's management performance could be hidden because matching revenue with expenses does not provide any indication on the efficiency of the service delivered; • if revenue expense-led were adopted, then deferred inflows and outflows should be included as separate elements on the balance sheet, however there is a question as to whether some of the deferrals under the revenue expense-led approach would meet the definition of assets and liabilities. HoTARAC believes the IPSASB may consider the concept of other comprehensive income used	

R#	CATE-GORY	COMMENTS ON SMC 11(b)	STAFF COMMENT
		under IFRS and other economic flows used under GFS in the presentation in the performance statement of valuation adjustments as an alternative to the concept of deferrals. HoTARAC would like to see more detailed examples in the paper and feel the current examples are too simplistic. It is recommended that IPSASB use more comprehensive examples to demonstrate how these concepts would apply from year to year, and compare the financial impacts between the expense revenue led and the asset liability led methods over a number of years. HoTARAC would like to see a wider range of transactions such as valuation changes, losses/write-offs, changes to expected amount/timing of transactions etc in the paper to encourage more informed future input from constituents. HoTARAC would prefer the response to focus on whether the revenue expense approach of linking flows to the current period operations or provision service/programs would meet the proposed qualitative characteristics, and if it is therefore unlikely to meet user needs. However, at the moment subjectivity concerns are subordinate to the more fundamental concerns.	Referred to in Memorandum., paragraph 22.
031		We support the assets and liabilities approach for the following reasons: • Using the definitions of an asset and a liability provide a firm or definite "anchor" within which to define revenues and expenses, i.e. any changes in assets and liabilities can be viewed as revenues and expenses. • If assets and liabilities are not used as "anchors" to define revenues and expenses, it may be very difficult to develop a principle that can be applied consistently to the recognition and/or deferral of revenues and expenses. • The asset and liability approach is more consistent with the statistical basis of accounting which views the statement of financial performance or income statement as the change in the "stocks" held by an entity. We do however acknowledge that: • The presentation of certain revenues and expenses, such as fair value gains and losses, may need to be considered at a standards-level if the asset and liability approach is used. • The inter-period matching of revenues and expenses that result from the revenue and expense approach may provide useful information to the users of the financial statements. As such, it may be useful to provide this information as a disclosure to the financial statements and/or as	Staff notes especially points about development of principles to justify deferrals and consistency with statistical accounting. Staff also notes point about presentational issues arising from A & L-led approach and possibility of presenting information derived from R & E-led approach as disclosures.

R#	CATE-GORY	COMMENTS ON SMC 11(b)	STAFF COMMENT
		an additional statement in the GPFSs or GPFRs. This information could be viewed as the first year of an inter-generational report that would provide information about whether current year taxpayers paid for the services they received in that period. A longer term inter-generational report could be prepared as an extension of this information and analyse whether the benefits received by various generations are equitable.	
032		In order to consider whether revenues and expenses should be determined by a revenue and expense-led approach or an asset and liability-led approach, concept of financial performance should be discussed and determined first by IPSASB. We believe that financial performance should disclose the relationship during the relevant fiscal year, between expenses required by a public sector entity for the benefit of provision of government services to citizens (benefits for the citizens) and revenues, which are entrusted resources such as taxes and charges paid by citizens for the government services (burden of the citizens). In general, the asset and liability-led approach, where financial performance reflects changes in assets and liabilities, will achieve a more faithful representation than the revenue and expense-led approach, which allows greater options in methods of allotment over periods. However, in order to present the financial performance as a relationship between benefits of provision of government services to citizens and entrusted revenue sources paid by citizens, the revenue and expense-led approach is more relevant than the asset and liability-led approach. Therefore, we believe that as long as the requirement of a certain level of faithful representation is met, revenues and expenses should be determined by the revenue and expense-led approach to supplement the asset and liability-led approach.	Need for linkage to financial performance noted.
033		Kearney et al (2006, 98) is defined as: "no agency may collect receipts and earn revenues unless specific authorization is provided by Congress. Additionally, an agency may have the authority to collect receipts, but such receipts are unavailable for expenditure by that collecting agency. … Expenses are defined as outflows or other expending of assets or incurring liabilities (or both) from providing goods, rendering services, or carrying out other activities related to an entity´s programs and missions, the benefits from which do not extend beyond the present operating period. Expenses are charged to proprietary-type expense accounts."	Issue as to whether receipts that have been collected, but are unavailable for use by collecting agency meet the asset definition.
034		We feel that the conceptual framework should provide the necessary flexibility to reflect the true	Whether such cash flows result in liabilities will

R#	CATE-GORY	COMMENTS ON SMC 11(b)	STAFF COMMENT
		substance of a transaction without requiring significant management/ professional time to "structure-in" the terms and conditions to manage the recognition of the arrangement. There are non-exchange transactions that are entered (as a provider or recipient) where the intent is to provide a one-time cash flow (i.e. benefit) that will provide a number of years' support to the recipient. If the language is not precise this can cause issues. Nova Scotia feels such arrangement typically result in liabilities and we expect the framework and accounting principles to support such determinations.	depend upon the definition of a liability and the terms of the agreement.
035		Most of this section was devoted to contrasting the **Asset & Liability Led (A&L) Approach** against the **Revenue and Expense Led (R&E) Approach**. The approach that you prefer determines what you consider to be the primary elements of GPFS. Under the R&E approach revenues and expenses are the primary elements and are seen as inflows and outflows that are applicable to the period. In contrast, under the A&L approach changes in your assets and liabilities determines the operating results for the period. Changes in the assets and liabilities are simply seen as inflows and outflows during the period. Both approaches have their strong points. Supporters of both approaches do agree that the statement of financial performance is important in meeting the objectives of financial reporting in the public sector. The objective of financial reporting in the public sector is to provide information to the users for: 1. Evaluating the government's management of its financial resources in the accounting period; and 2. Assessing whether the resources were managed within the legislated limits. The first objective suggests the need for governments to properly manage its physical assets and liabilities as best as possible. The function of governments is to provide public goods and services. It can thus be argued that financial statements should be grounded in real economic substance so as to provide users with relevant information on the net resources available for future operations. The A&L approach is better suited for meeting the first objective of financial reporting. The R&E approach is favored because it reduces volatility on the statement of performance. The R&E approach is better aligned with the second objective of financial reporting. The second objective views the budget as playing the most significant role in the accountability cycle of the government. The budget is the publicly communicated document against which the general	Noted view on strengths and weaknesses of two approaches and view that Conceptual Framework should try to reconcile the two approaches.

R#	CATE-GORY	COMMENTS ON SMC 11(b)	STAFF COMMENT
		public evaluates the operating results for the period. It is our view that the Conceptual Framework should be equally aligned with both objectives. We prefer the R&E approach but we feel it is important to assign cash flows to the applicable period. However we also strongly believe that the statement of financial position should only include assets and liabilities that have real economic substance. Deferred inflows and outflows should only be included on the statement of financial position if they meet the characteristics we previously described for liabilities and assets. We therefore do not see any need to include deferred outflows and deferred inflows as separate elements of financial statements. As an example of our suggested approach we will use a transfer to the government received on the last day of a fiscal year. The purpose of the grant can be either for operating a specific program with stipulated objectives; or acquiring or constructing a capital asset. Under the A&L approach the government's net assets have increased by the amount of the transfer. The transfer is reflected as revenue on the statement of performance even though the government has not incurred an expenditure towards the purpose of the transfer. Under the R&E approach the transfer would be deferred thereby having no net effect on the net assets at the reporting date. The deferred inflow can be brought into income and be properly matched with the related expenditures in future accounting periods. Using our example it is our view that the transfer represents an asset to the government at year end but also meets the criteria of a liability. 1. The government has a duty or responsibility to the transferor leaving the government little or no discretion but to use the funds as stipulated by the transferor. 2. The settlement of the obligation entails the expenditure of the funds within the timeframe stipulated by the transferor. 3. The transactions obligating the government have already occurred. The government was eligible for the transfer and/ transfer has been received or is receivable as of the reporting date. This would make the transfer a present obligation. The Conceptual Framework chosen should try to balance the two objectives of financial reporting as best as possible. Both objectives are important and cannot be properly balanced by selecting one approach over the other. We believe that the approach selected has to provide useful information to users for both objectives.	

SMC 12(a): Should transactions with residual/equity interests be excluded from revenues and expenses?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**17 (58%)**
(B) NO	**6 (21%)**
(C) NO CLEAR VIEW EXPRESSED	**6 (21%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**29 (100%)**
(D) DID NOT COMMENT	**6**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
001	C	Where transactions with residual interests can be appropriately defined, ACAG would support investments in the operating capacity of Government being excluded from revenue and expenses. However, in the absence of a sound conceptual base for allocating residual transactions between financing (e.g. contributions to increase the operating capacity of Government) and operating (e.g. provision of services to Government), ACAG supports comments at paragraph 4.46 which note these transactions should be treated as revenue and expenses. If this was to be adopted users may still benefit from classification that separates residual transactions between non-reciprocal and normal exchange transactions. .	Point on presentation noted.
002	A	Whilst we agree that residual/equity interests should be excluded from revenue and expenses, we are of the view that there are a number of issues in relation to residual/equity interests that need to be further explored. For example, some public sector bodies may receive funding from another part of government in order to support their activities and, perhaps less commonly, pay over surplus funds to a higher level of government. It is important that such transactions are excluded from the definitions of revenues and expenses. The exclusion should only be for transactions with such parties in their capacity as owners.	Referred to in Memorandum, paragraph 83.
003	C	Address when analyzing Section 5. (Paragraph Reference 4.40)	
004	A	NAO opines that they should be excluded from revenues and expenses so that the real results of each Government Department will be able to be assessed.	May not be clear what constitutes a 'real result'
005	A	Transactions with residual/equity interests should be excluded from revenues and expenses. In our view, in the public sector, net assets/net liabilities represent similar transactions with	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
		residual/equity interests as in the private sector. The net assets/net liabilities should be defined as a separate element since they do not arise from the transactions or events during the current period, rather than a residual amount of the difference between assets and liabilities. Comments to specific matter 15 provide more details on our view on net assets/net liabilities.	paragraphs 82-85.
006	D	*Did not comment on this SMC.*	
007	A	NSW Treasury believes transactions with residual / equity interests should be excluded from revenues and expenses.	See Memorandum, paragraphs 82-85.
008	D	*Did not comment on this SMC.*	
009	B	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.	Staff does not feel that this view is persuasive without further explanation.
010	D	*Did not comment on this SMC.*	
011	A	We believe that transactions with residual/equity interests should be excluded from revenues and expenses.	See Memorandum, paragraphs 82-85.
012	A	Yes, e.g. allocations to reserves or for the use of funds in equity.	
013	B	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	Example of UK practice noted.

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
		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.	
014	C	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. 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.	Paragraphs 4.40-4.46 related to residual/equity interests. Paragraphs 4.47-4.50 considered whether the definitions of revenue and expense should be limited to specific types of activities. The positioning of the Specific Matter for Comment boxes may have been confusing to readers.
015	C	In our view the nature of a transaction indicates whether it should be included or excluded from the revenue and expense definition. A general guideline could be that most of the transactions with holders of a residual/equity interest (e.g., as customer or supplier and as tax payers or grant recipients) should be included as revenues and expenses at government level. However, this does not apply for minority interests in consolidated financial statements (see specific matter to comment 15).	Referred to in Memorandum, paragraph 84.
016	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
017	A	Defining equity or 'ownership' interest is particularly problematic for public sector entities, but this can usefully be conceived of as a residual. Current frameworks usefully distinguish flows to and from 'ownership' interests from the headline performance measure of operational activity and we consider that this is helpful.	See Memorandum, paragraphs 82-85.
018	A	The Joint Accounting Bodies believe that when the transaction is one with the holders of residual/equity interests who are acting in that capacity, such transactions should be excluded from revenues and expenses. Therefore, we support the view outlined in paragraph 4.41 of the CF CP Elements and Recognition that contributions intended to be an investment in the initial operating capacity of the entity or, subsequently to increase it, should be excluded from revenues. We also support the related treatment of distributions outlined in paragraph 4.41.	See Memorandum, paragraphs 82-85.
019	B	The Task Force's position on this specific matter for comment is that transactions with residual/equity interests should not be excluded from revenues and expenses, as long as they are associated with supporting current and future capacity of a reporting entity and not associated with future return on the specific investment.	Referred to in Memorandum, paragraph 83.
020	A	As noted in our discussion regarding the revenue and expense-led approach, we believe that transactions with residual/equity interests should be excluded from revenues and expenses of the period as they do not provide useful information to assess current government performance. This view is consistent with the nature of a public sector operating environment where governments are held accountable to the public for the effective use of current financial resources to provide service to the public.	See Memorandum, paragraphs 82-85.
021	A	In relation to specific matter for comment 12(a) we consider that transactions with residual/equity interests should be excluded from revenues and expenses. We support the view outlined in paragraph 4.41 of the CP that contributions intended to be an investment in the initial operating capacity of the entity or, subsequently to increase it, should be excluded from revenues. We also support the related treatment of distributions outlined in paragraph 4.41 (that is, distributions intended to reduce operating capacity or intended to be a return on the owners' investment should be excluded from the definition of expenses). We consider that this approach is suitable for all types of public sector entities. We therefore refute the suggestion in paragraph 4.42 that this approach is appropriate only when net assets/liabilities are similar to a private sector equity interest.	See Memorandum, paragraphs 82-85. Noted view that transactions with residual/equity interests should be limited to those similar to private sector equity interests.
022	B	Residual interest may be separately disclosed from revenues and expenses to define more clearly	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
		a residual benefit and stakeholders for the same.	paragraphs 82-85.
023	A	Yes. Transactions with residual/equity interests should be excluded from revenues and expenses.	See Memorandum, paragraphs 82-85.
024	B	We prefer to run everything through surplus or deficit rather than clutter up residual equity. It is more understandable to the less knowledgeable users of the GPFR since the Net Changes Statement is fairly straight-forward.	Such an approach may be arguably more understandable, but may sacrifice other QCs such as relevance and faithful representation.
025	A	In relation to Specific Matter for Comment 12(a), the AASB considers that transactions with residual/equity interests should be excluded from revenues and expenses.	See Memorandum, paragraphs 82-85.
026	A	According to IAS 18 « Revenue » § 7 : *« Revenue is the entry of gross economic benefits during the period arising in the course of ordinary activities of an enterprise, provided that such entry would lead to an increase in equity that is not related to contributions from owners that heritage. »* Consequently, the DGFiP considers that the variations of the net asset which are independent from the normal activity of the entity must be excluded from revenue. For the central government, for example, the non-specialised land and buildings are recorded at their market value and their positive and negative revaluations are recognised in revaluation surplus. The same reasoning applies to the expenses arising in the course of ordinary activities.	See comments on Respondent `14.
027	C	This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.	Staff thinks that, dependent upon circumstances, issue may be relevant for individual entities.
028	A	In our view, transactions with residual/equity interests that in-substance are contributions or distributions should be excluded from revenues and expenses. We acknowledge that it can be difficult to determine whether transactions are of that nature where the residual/equity interests are individuals (e.g. ratepayers or taxpayers) rather than entities. However, apart from the various levels of government, most public sector entities could receive contributions from or make distributions to a "parent" public sector entity, including a government parent.	Staff acknowledges point that identifying residual/equity interests may be difficult in public sector.
029	C	The province believes that government has no "equity" capital and therefore there are no equity	Noted.

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
		interests and there is no basis to compare the concepts of capital with private sector entities. Government has stakeholders and in a generic sense has "owners" being the general public. Under this concept of "owners" it is not possible to eliminate transactions with "owners" as all taxes are raised from "owners" and all goods and services are provided for the benefit of "owners" and all transactions of this nature are reported through the operations statement. This is consistent with the views expressed in paragraphs 4.45 and 4.46 of the Consultation Paper. Based on the above discussion the list of components identified in paragraph 5.28 of the Consultation Paper comprising contributions and distributions to owners; capital maintenance and fair value adjustments and operating results is reduced to accumulated operating results which is again consistent with the view that net assets/net liabilities represents a residual amount which is not capital.	
030	A	HoTARAC supports the concept that transactions with owners as owners should be excluded from the performance statement when there is an ownership interests (i.e. equity interest). As in the corporate sector, government should recognise these transactions separately from the performance statement. Given that IPSASB Conceptual Framework is proposed to be applicable at the reporting entity level, the concept of ownership interest should be retained. At the consolidated level, ownership interests are subsumed into net worth (i.e. residual amount). Distinguishing between revenue and capital funding in the GFS General Government sector and between General Government and its business entities is important in assessing financial performance of the General Government sector units within that sector.	See Memorandum, paragraphs 82-85.
031	A	Revenues are received in exchange for goods and services provided or, for the use of an entity's assets. Revenues are usually used by an entity to fulfill its mandate. Contributions from owners are received in return for a right to an interest in an entity, and is regarded as the capital of the entity. As the substance of the inflow is different, contributions from owners should be distinguished from revenue.	See Memorandum, paragraphs 82-85.
032	A	Concerning (a), transactions with residual/equity interests should be excluded from revenues and expenses, because their flow is not directly related to activities of public sector entities in the current period.	See Memorandum, paragraphs 82-85.
033	D	*Did not comment on this SMC.*	
034	B	Nova Scotia feels these transactions should flow through revenues and expenses as these are indicators of the change in resources attributed to the fiscal year. We are not supportive of accounting for transactions directly through net assets/ net debt.	See Memorandum, paragraphs 82-85.

R#	CATE-GORY	COMMENTS ON SMC 12(a)	STAFF COMMENT
035	D	*Did not comment on this SMC.*	

SMC 12(b): Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES: LIMIT TO SPECIFIC TYPES OF ACTIVITIES ASSOCIATED WITH OPERATIONS	**5 (19%)**
(B) NO: DO NOT LIMIT TO SPECIFIC TYPES OF ACTIVITIES ASSOCIATED WITH OPERATIONS	**18 (67%)**
(C) PROPOSE OTHER DEFINITIONS/APPROACHES	**2 (7%)**
(D) NO CLEAR VIEW EXPRESSED	**2 (7%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(E) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
001	B	ACAG does not believe the definitions should be limited to specific types of activities. Instead, public sector entities should provide sufficient information within their financial statements to differentiate their various sources of revenue and expenditure.	Need for disclosures noted.
002	C	The terminology adopted in the Consultation Paper for the elements that relate to flows, that is 'revenue' and 'expenses' is, in our view, likely to lead to considerable confusion, because those terms are often used in a more restricted sense. 'Revenue', for example, is frequently used to refer to inflows from ordinary activities—the amount reported in the private sector as 'turnover' or 'sales'. Endless arguments arise about, for example, whether the sale of a non-operating asset for more than its book value (or the settlement of a dispute for less than that previously recognised) give rise to 'revenue'—even where the parties to the discussion are agreed that the credit should be recognised in the statement of financial performance, but in a way that distinguishes from normal operations. The ASB's Statement of Principles for Financial Reporting avoids this by using the terms 'gains' and 'losses' to describe the elements that relate to financial reporting. Supplementary discussion might add that 'revenues' are one kind of gain and 'expenses' are one kind of loss. We strongly recommend that the IPSASB considers adopting general terms such as 'gains' and 'losses' for these elements. We recognise that this would be a departure from the usage in IASB's current Conceptual Framework, but would hope that IASB will make a similar change when it addresses the elements in its work on its Conceptual Framework.	View that terminology of 'gains' and 'losses' should be adopted noted and referred to in Memorandum, paragraph 88. The Consultation Paper reflected a converse view that definitions of revenue and expense include gains and losses.

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
003	E	*Did not comment on this SMC.*	
004	B	NAO believes that the definitions of revenue and expenses should not be limited to specific types of activities associated with operations but should include also gains and losses. This will provide a more faithful representation of Departmental performance.	See Memorandum, paragraphs 86-89.
005	B	In our view, revenue and expenses should be defined in general terms rather than be limited to specific types of activities associated with operations. Limiting definitions to specific transactions may result in difficulty in applying the concepts in practice if certain transactions are not included in the definitions. On the other hand, definitions in general terms may encompass all transactions in which governments or public sector entities engage during the current period. In other words, we believe that the definitions of revenue and expense should include gains and losses, as they are considered to be subsets of the primary elements.	Staff also notes use of terminology advocated by Respondent 2.
006	E	*Did not comment on this SMC.*	
007	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.	See Memorandum, paragraphs 86-89.
008	E	*Did not comment on this SMC.*	
009	A	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	See Memorandum, paragraphs 86-89.
010	E	*Did not comment on this SMC.*	
011	A	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.	See Memorandum, paragraphs 86-89.Noted view that unrealized gains and losses may be presented in statement of financial performance.
012	B	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	See Memorandum, paragraphs 86-89.

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
		be governed in the relevant IPSAS.	
013	B	Yes, see comments above regarding capital transactions.	See Memorandum, paragraphs 86-89.
014	A	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.	Referred to in Memorandum, paragraph 88.
015	B	The definitions of revenue and expense should not be limited to specific types of activities associated with operations. We support the view that such classifications are issues of financial statement presentation, not of element definition. In our view gains and losses should be included in the definitions of revenue and expense because they are similar in nature, as both sets of items result from increases and decreases in net benefits. The same applies for the distinction between non-exchange and exchange transactions and events, which should only be regulated differently at standard level.	Referred to in Memorandum, paragraph 87.
016	B	The financial statements and the income statement of central government institutions focuses, as mentioned above, on the activities associated with operations in general. The primary target group of financial reports in the public sector has not in relation to accounts focus on a specific operating activity. Therefore the income statement includes all items relating to operations. Amendments to the content of the income statement must have a management purposes and be in demand of the target group of the reporting. There are no immediate plans to narrow or redefine the target group and thus alter the content of the income statement of central government institutions.	Noted. Staff has reservations about excluding or including items from definitions of revenue and expense on basis of management purpose.
017	B	No. But at a standards level, it may be useful to separately disclose information on revenue and expenses associated with operations, for example in contrast to changes in financial position which arise from exogenous factors such as changes in market values.	Noted view that disclosures might aid understanding.
018	B	The Joint Accounting Bodies consider the definitions of revenue and expense should include inflows from all transactions and events other than transactions with the holders of residual/equity interests when they are acting in that capacity. We do not support limiting the definitions to specific types of activities. We note that the IASB/FASB use of "other comprehensive income" does not have a basis in its CF. We encourage the IPSASB to explore its use as part of the development of its CF in liaison with the IASB/FASB to develop a consistent definition.	Noted reservations about conceptual underpinning of "other comprehensive income".
019	B	The basis for conclusions for IPSAS 23 refers to the position taken by IPSASB in concurrence	Noted view on IPSAS 23

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
		with the views of the Board's Steering Committee against "adopting an approach that focuses on the development of requirements for accounting for revenue arising from a range of specific types of non-exchange transactions (IPSAS 23, para. BC7)". Such approach was thought to bring with it "consequent risks that the resultant Standard would not provide comprehensive guidance for all revenue from non-exchange transactions". The Task Force concurs with the position of the IPSASB outlined in the basis for conclusions for IPSAS 23 and is of the view that broad principles for recognition of revenue should be maintained.	approach.
020	A	We support limiting the definitions of revenue and expense to include specific operations-type activities, as we believe it is necessary in applying a revenue and expense-led approach that permits users to evaluate a government's service delivery performance.	Referred to in Memorandum, paragraph 87.
021	B	In relation to specific matter for comment 12(b) we consider the definitions of revenue and expense should include inflows from all transactions and events other than transactions with residual/equity interests. We do not support limiting the definitions to specific types of activities associated with operations. Much of the current complexity in financial reporting revolves around the presentation of gains or losses in financial statements. We consider that all gains and losses should be presented in a single comprehensive statement of financial performance. This removes the need to distinguish between revenue from operations and other revenue and removes the need for rules regarding classification of gains and losses. Our comments here are consistent with earlier comments to the IASB in relation to the presentation of financial statements. We have previously encouraged the IASB to remove the category of other comprehensive income as soon as solutions can be reached for items presently classified there. We note that historically there has been confusion within financial reporting standards regarding the meaning of operating activities and ordinary activities. Although entities will always have an interest in providing users with information on the results of ongoing activities as opposed to one-off events, this is a presentation and disclosure issue and should not drive the definitions of elements.	See Memorandum, paragraphs 86-89. Also note reservations about conceptual underpinning of other comprehensive income.
022	E	*Did not comment on this SMC.*	
023	B	No.	
024	B	Not necessarily. We believe that revenue should be recognized in the period when earned and expenses should be recognized in the period when incurred regardless of whether it relates to operations.	See Memorandum, paragraphs 86-89.

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
025	B	In relation to Specific Matter for Comment 12(b), the AASB does not support restricting the definitions of revenues and expenses to specific types of activities associated with operations. Instead, the definitions of revenues and expenses should include inflows from all transactions and events other than transactions with residual/equity interests. The AASB considers that the desire of some to limit the definitions of revenues and expenses to specific types of entity activities or events has more to do with display of financial information about components of broadly defined revenues and expenses than with the breadth of the definitions per se. Accordingly, the AASB considers that this issue should be considered more fully by the IPSASB, within the context of broad definitions, when it develops further the Presentation and Disclosure phase of its Conceptual Framework project.	Staff notes view that issue should be considered under presentation.
026	A	The DGFiP agrees on the fact that the definition of revenue and expense must be limited to the activities associated with current operations. It takes there place to specify that the activity of the public sector entities distinguishes itself from that of the private sector by the nature of its sovereign missions and its missions of economic and social regulator.	See Memorandum, paragraphs 86-89.
027	D	To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.	Point may relate to recycling or ambiguity of term “activities”.
028	B	In our view, the definitions of revenue and expense should not be limited to specific types of activities associated with operations, however described.	See Memorandum, paragraphs 86-89.
029	E	*Did not comment on this SMC.*	
030	C	HoTARAC recommends that IPSASB consider the similar concepts of IFRS “Other comprehensive income” and GFS "Other economic flows", to allow users to distinguish between transactions and valuation adjustments. HoTARAC notes IPSASB attempts to minimise divergence from the GFS reporting model. In Australia, an attempt has been made to harmonise government reporting under GAAP with the Government Finance Statistics Framework. One of the harmonising requirements is the distinction between increases in net worth, arising from transactions (defined as mutually agreed interactions between enterprises) which are recognised as revenue, and other changes in volume or value of assets (recognised as other economic flows). The channelling of valuation adjustments to other comprehensive income facilitates this process.	Referred to in Memorandum, paragraph 88.

R#	CATE-GORY	COMMENTS ON SMC 12(b)	STAFF COMMENT
		HoTARAC supports the proposal in paragraph 4.48 as providing additional information that is useful and relevant to users by making such distinction, however, this should be based on a sound conceptual basis, not decided on a standard basis (i.e. current IASB approach), and thus should be defined in the Conceptual Framework. Other Comments HOTARAC notes that the definitions need to be clear because different terminology has at times been applied to the same concept (e.g. in the Asset/Liability approach, revenue can be split between 'revenue' and 'other income', on the other hand 'revenue from transactions' could align with revenue as defined in the Revenue & Expense approach).	
031	B	While revenues and expenses may be attributed to specific activities, they arise from either changes in assets and liabilities or from events that occur in a specific period. The activities to which assets and liabilities or events relate is irrelevant in determining whether they are revenues or expenses in nature. The definitions of revenues and expenses should therefore not include only revenues and expenses that arise from specific activities. We would however note that it may be important to consider whether presentation of information on the various activities of an entity may be useful to users of the financial statements. For example, it may be appropriate to provide information in the cash flow statement about revenues and expenses arising from operating, investing and financing activities. This can however be achieved by considering presentation requirements at a standards-level.	Noted view similar to Respondent 25 that revenue and expenses should not be limited to specific types of activities and that issue also relates to presentation.
032	E	*Did not comment on this SMC.*	
033	D	I think that initially the use for revenues and expenses definition which inflows and outflows have to observed the impact in the structure of the others IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	B	We do not feel this is necessary.	See Memorandum, paragraphs 86-89.
035	E	*Did not comment on this SMC.*	

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**2 (7%)**
(B) NO	**24 (89%)**
(C) NO CLEAR VIEW EXPRESSED	**1 (4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(D) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 13(a)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	A	Explicitly break down the revenue for a particular purpose and the consequential costs, which do not affect the qualitative modification of equity or budget outcome. Partly covered by the example. (Paragraph Reference 4.13)	Referred to in Memorandum, paragraph 125.
004	B	None.	
005	B	We have no additional comments on this topic.	
006	D	*Did not comment on this SMC.*	
007	B	No additional characteristic or other issue has been identified.	
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no additional comments to make.	
012	B	No, no additional characteristics are apparent.	
013	B	No.	
014	B	The CNOCP believes there are no other characteristics which are essential for the	

R#	CATE-GORY	COMMENTS ON SMC 13(a)	STAFF COMMENT
		development of a definition of revenues and expenses.	
015	B	No further comments.	
016	D	*Did not comment on this SMC.*	
017	B	No.	
018	B	The Joint Accounting Bodies have not identified any other characteristics or issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of revenues and expenses.	
019	B	No comment.	
020	B	We do not believe that there are any additional characteristics that are essential to the development of definitions of revenues and expenses.	
021	B	We have not identified any other characteristics or issues.	
022	D	*Did not comment on this SMC.*	
023	B	No.	
024	A	The key characteristic of the public sector is that in general revenues and expenses are unrequited. This makes application of the matching principle used in the private sector problematic and hence leads to many of the problems identified in this paper. A conceptual model for the public sector would provide a framework for resolving the issues.	Staff assumes that the term "unrequited" means "non-exchange" or "non-reciprocol". Referred to in Memorandum, paragraph 125.
025	B	The AASB has not identified any other characteristics that are essential to the development of the definitions of revenues and expenses.	
026	B	The DGFiP did not identify any additional characteristics essential to the definition of revenues and expenses.	
027	B	No.	
028	B	In our view, there are no additional characteristics essential to the development of definitions of	

R#	CATE-GORY	COMMENTS ON SMC 13(a)	STAFF COMMENT
		revenues and expenses.	
029	D	*Did not comment on this SMC.*	
030	B	See comments under 12(above).	
031	B	We could not identify any additional characteristics or other issues that require consideration in the development of definitions for revenues and expenses.	
032	D	*Did not comment on this SMC.*	
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	While Staff acknowledges the linkage between all Phases of the Framework, Staff is not clear what aspect of Phase 1 necessitates deferral of this issue.
034	B	Nothing significant.	
035	D	*Did not comment on this SMC.*	

SMC 13(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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**9 (33%)**
(B) NO	**17 (63%)**
(C) NO CLEAR VIEW EXPRESSED	**1 (4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100%)**
(D) DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 13(b)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	D	*Did not comment on this SMC.*	
004	B	None.	
005	A	We appreciate that the Consultation Paper simply presented the two approaches in an objective way without indication of preference. It is our impression that the international accounting profession is moving toward the balance sheet approach (focus on assets and liabilities). In Canada, PSAB has also recently adopted this perspective. However, in our view, which is shared by most other senior Canadian governments, the revenue and expense led approach best supports the balanced budget framework under which Canadian governments operate. This was a key recommendation of the Canadian Joint Working Group in the development of a conceptual framework for Canadian governments. Further, the budget is a primary financial document within the public sector and the summary budget and historical financial statement comparatives have been prepared on a consistent accounting basis chosen in the interest of transparency and accountability in reporting to the public. As noted earlier, it will continue to be critical to IPSASB's long-term success to give due consideration to the impact of any proposed standard on government's fiscal policy decisions, and the quality of public sector financial reports in providing a faithful representation of the activities and performance of the government under the established accountability framework.	Referred to in Memorandum, paragraph 18.

R#	CATE-GORY	COMMENTS ON SMC 13(b)	STAFF COMMENT
006	D	*Did not comment on this SMC.*	
007	B	No additional characteristic or other issue has been identified.	
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no additional comments to make.	
012	B	No, no additional issues are apparent.	
013	B	No.	
014	A	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.	Staff need to clarify meaning of term "intervention expenses"? Referred to in Memorandum, paragraph 128.
015	B	No further comments.	
016	A	Recognition of revenue and expenses related e.g. to natural resources or guarantees such pensions are not suitable for each institution's General Purpose Financial Reporting. This information can be reported in the Special Purpose Financial Reporting on a more aggregated level. Certain obligations and issues of sustainability are economic topics which belong more in a political discussion about economic potential. Moreover, the measurement of these items is difficult and otherwise subject to judgment, which is problematic at the institution level. An extended reporting could possibly include additional information about developments in the services and activities of institutions in relation to performance targets and performance contracts.	Referred to in Memorandum, paragraph 128 (natural resources, guarantees, sustainability).
017	B	No.	
018	A	The Joint Accounting Bodies have not identified any other characteristics or issues. However we would encourage continued liaison with the IASB/FASB to develop a consistent definition of revenues and expenses.	

R#	CATE-GORY	COMMENTS ON SMC 13(b)	STAFF COMMENT
019	A	Examples included in the Consultation Paper depicting impact of using an asset and liability-led approach as compared to revenue and expense-led approach to the same economic transactions with different resulting presentations were quite useful. However, they were both focused on demonstrating effect of using different approaches on revenues rather than expenses. The first example referred to capital construction and therefore expenses in this example were capitalized, to be depreciated over a period of time. The second example was focused solely on recognition of tax collections without occurrence of any related expense(s). There was no illustration of a reporting entity dealing with non-capitalizable expenses incurred during the period under an asset and liability-led approach as compared to revenue and expense-led approach. The Task Force believes that it is essential to bridge this gap by revising existing examples or adding new examples which would depict impact of using both recognition approaches to non-capitalizable expenses before final comments on the preferred approach are sought.	Referred to in Memorandum, paragraph 25.
020	A	As we have noted in our previous comments, we believe that the public sector operating environment, which includes accountability for the effective delivery of services to the public and balanced budget legislation that exists in some jurisdictions, must be considered in determining the definitions of revenues and expenses.	Noted
021	B	We have not identified any other characteristics or issues.	
022	D	*Did not comment on this SMC.*	
023	A	Consider possible linkages with the Exposure Draft, "Key Characteristics of the Public Sector", approved at the March 2011 meeting. Explicit cross referencing with the Key Characteristics ED would strengthen the substance of the framework as one designed for the public sector. Perhaps each document issued could have a table that indicates the implications of the key characteristics for the principles set out in the document. This summary table could then be used when all of the pieces of the framework are put together to develop a matrix that outlines all of the implications of the key characteristics of the public sector.	Referred to in Memorandum, paragraph 128.
024	B	No other issues are considered pertinent to the conceptual framework.	
025	B	Nor has it identified any other issues that need to be considered.	
026	A	As indicated above, the DGFiP considers that the public sector entity's activity distinguishes itself from that of the private sector by the nature of its sovereign missions and its missions of economic and social regulator.	Key Characteristics ED discussed issue of regulation.

R#	CATE-GORY	COMMENTS ON SMC 13(b)	STAFF COMMENT
027	B	No.	
028	B	In our view, there are no other relevant issues that the IPSASB needs to consider in determining the definitions of revenues and expenses.	
029	D	*Did not comment on this SMC.*	
030	B	See comments under 12(above).	
031	B	We could not identify any additional characteristics or other issues that require consideration in the development of definitions for revenues and expenses.	
032	D	*Did not comment on this SMC.*	
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	See comments on SMC 13(a)
034	A	IPSASB needs to ensure they keep focus on the full accountability cycle of a government. Governments manage public money and are accountable to their citizens and residents. Financial statements need to show the fiscal position of the government at a point in time and the result of the operations between reporting dates. Where governments manage risks effectively there must be room for these strategies to be disclosed and for the recognition to be boiled down to the essential results of these strategies. We feel standard setters are veering away from this direction and are introducing items that are not completely necessary in all cases. In summary we would push the standard setters to not set the standards for the lowest common denominator within the professions but hold the professional to high standards and emphasize the need for continued professionalism and strong ethics.	Referred to in Memorandum, paragraph 128.
035	D	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**17 (52%)**
(B) NO	**13 (39%)**
(C) NO CLEAR VIEW EXPRESSED	**3 (9%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**33 (100%)**
(D) DID NOT COMMENT	**2**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
001	A	ACAG supports deferrals being identified separately.	See Memorandum, paragraphs 91 and 92.
002	B	As stated in our answer to SMC 11, we oppose the inclusion of deferrals in the statement of financial position.	See Memorandum, paragraphs 91 and 92.
003	A	The deferrals should be identified in the statement of financial position.	See Memorandum, paragraphs 91 and 92.
004	A	Yes, NAO is of the opinion that deferred outflows and deferred inflow are to be identified on the statement of financial position.	See Memorandum, paragraphs 91 and 92.
005	A	The section identifies that deferred inflows and outflows in the public sector relate to inter-period equity which is different to commercial concepts of deferred inflows and outflows that attribute revenue to match costs incurred. This comment is dependent on whether an asset-liability approach or a revenue-expense approach is taken. Ontario supports the revenue-expense approach and this would naturally lead to the deferrals needing to be incorporated into the definition of an asset or liability. Ontario supports the separate disclosure of deferrals from other types of assets and liabilities. Ultimately, the primary measures in public sector statements are in-year Surplus/(Deficit) and Debt for GPFS making separate presentation of deferrals a secondary consideration.	Staff acknowledges linkage with discussion on A & L-led and R & E-led approaches. Staff also notes that deferrals can be implemented through presentation rather than modification of element definitions, although paragraph 5.11 of Framework-CP2 did also highlight the disadvantages of this approach. Note that Respondent 6 below favors

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
			this approach.
006	A	Therefore deferrals need to be accounted for in the financial statements and to be included as sub-components of assets and liabilities.	Noted view that issue can be addressed through presentation rather than modification of element definitions.
007	B	We do not think deferrals should be identified on the statement of financial position (see our response to Specific Matter for Comment 11).	See Memorandum, paragraphs 91 and 92.
008	D	*Did not comment on this SMC.*	
009	A	Yes the identification of deferrals on the statement of financial position will increase the understandability of GPFRs.	See Memorandum, paragraphs 91 and 92.
010	C	In respect of Specific Matter for Comment nos. 11 and 14, the IDW favors the asset and liability led approach.	Staff note that deferrals do arise under the A & L-led approach.
011	A	We agree that deferrals need to be identified on the statement of financial position in some way.	See Memorandum, paragraphs 91 and 92.
012	B	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).*	See Staff comments on Respondent 10.
013	B	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	Noted view that intergenerational/interperiod equity considerations can be addressed through accompanying reports. See Staff comments on Respondent 10.

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
		due from or to external parties as at the balance sheet date.	
014	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**.	See Staff comments on Respondent 10.
015	C	As mentioned above, we support the asset and liability approach (see specific matter for comment 11). Against this background, we have reservations about the capitalization of deferred outflows in the balance sheet. However, this does not necessarily apply for the recognition of deferred inflows.	See Memorandum, paragraphs 91 and 92.
016	D	*Did not comment on this SMC.*	
017	B	No. Deferrals do not need to be identified on the SOFP. The deferral models proposed seem to be based on considerations of inter-period equity which provide information which is important in some jurisdictions. However, while interperiod and intergenerational equity are important considerations, there is no consensus on whether or if there should be specific measurement and disclosure in Statements of Financial Position. Recognition is also likely to be problematic and potentially subjective. We consider that deferral information may often be relevant information, which should be brought to the attention of readers of financial reports, perhaps through narrative reporting, including in jurisdictions which do not primarily focus on inter-period equity. We do not however consider such deferrals to be elements of financial statements applicable in an international context.	See Memorandum, paragraphs 91 and 92. See also Staff comments on Respondent 10.
018	B	The Joint Accounting Bodies do not support the identification of deferred outflows and deferred inflows as they are not derived from the 'asset and liability-led approach'.	See Memorandum, paragraphs 91 and 92. See also Staff comments on Respondent 10.
019	B	The Task Force's view is that presentation of deferrals on the statement of financial position should be optional, as its usefulness to users of GPFSs varies between reporting entities. For example, based on discussion and examples relevant to this specific matter for comment, governments might be more interested in defining deferrals on the face of the GPFSs, whereas other public sector entities may choose to present them as a sub-component of assets and liabilities or net assets/net liabilities or not identify them on the statement of financial position, depending of the needs of users of their GPFSs.	Introducing options may undermine comparability.

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
		The Task Force notes that the Consultation Paper implies that deferred outflows and deferred inflows are derived from the revenue and expense-led approach to elements and financial performance. The revenue and expense-led approach defines the elements of revenue and expense on the basis of their applicability to the current period, resulting in deferral of certain costs and resources to future periods. The asset and liability-led approach is based on presentation of resources and obligations at the reporting date, which eliminates the need to determine which transactions and events that affect financial position are included or excluded from any specific period's measure of financial performance.	
020	A	In order to implement a revenue and expense-led approach that allows for the allocation of inflows and outflows to the applicable period, we believe that deferrals need to be identified on the statement of financial position.	See Memorandum, paragraphs 91 and 92.
021	B	Consistent with our response to specific matter for comment 11 we have not responded to this question. We do not support the identification of deferred outflows and deferred inflows as elements of financial statements.	See response to SMC 11.
022	A	Deferred inflows and outflows should be disaggregated to provide more complete financial disclosure. This helps to clarify the rights, duties, obligations and recourse to particular stakeholders of an entity	See Memorandum, paragraphs 91 and 92.
023	B	No. Please see discussion of revenue/expense-led approach to financial performance in Matter 11 above.	See Memorandum, paragraphs 91 and 92.
024	A	Yes, we believe that deferrals should be identified in some way on the GPFR. However, the first sentence in paragraph 5.1 applies to the R&E approach while the last sentence applies to the A&L approach. Thus, both approaches support an inter-period equity concept. In paragraph 5.2, the A&L approach also relates to their position at the end of the current period; thus, R&E is appropriately recognized. In paragraph 5.4, this Consultative Paper uses the R&E approach and the inter-period equity concept interchangeably. These terms are not the same. Where inter-period equity is used, R&E approach should be used since inter-period equity applies equally to the A&L approach.	Staff considers that interperiod-equity considerations align better with the R & E-led approach.
025	B	In relation to Specific Matter for Comment 14(a), the AASB does not consider it appropriate to identify deferrals in the statement of financial position, for the reasons noted in the AASB's comments on Specific Matter for Comment 11.	See Memorandum, paragraphs 91 and 92.
026	A	The DGFiP considers that deferred elements must be identified in financial statements, in	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
		specific accounts which can be regularization accounts.	paragraphs 91 and 92.
027	A	Yes.	See Memorandum, paragraphs 91 and 92.
028	B	In our view the statement of financial position should include only assets, liabilities and equity, not deferred revenues and deferred expenses. In our view, the manner in which financial performance is presented may be able to alleviate some of the underlying concerns that motivate the deferral of certain revenues and expenses.	Noted view that issue can be addressed through presentation rather than modification of element definitions.
029	A	The Province does support the establishment of an element to recognize deferred revenue where appropriate and does not support attempts by some to require deferred revenue to meet a narrow definition of a liability in order to be recognized.	Referred to in Memorandum, paragraph 95.
030	B	Refer in part to comments under 11(above). HoTARAC favors the assets and liabilities-led approach and does not support the identification of deferrals if they do not meet the definition of assets and liabilities, as these would not faithfully represent the economic phenomena. Valuation changes should be reported as other comprehensive income as these transactions are more akin to a concept of net worth.	Noted view on linking other comprehensive income to net worth.
031	B	Based on our response to specific matter for comment 11, we do not believe that deferred inflows or outflows should be defined as elements.	See Memorandum, paragraphs 91 and 92.
032	A	Concerning (a), we believe that deferrals need to be identified on the statement of financial position, because in order to fulfill accountability to citizens, the relationship between benefits of provision of government services to citizens and entrusted revenue sources paid by citizens in the current period should be clarified.	See Memorandum, paragraphs 91 and 92.
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	A	The definition of assets and liabilities need to provide the ability to be interpreted to permit deferrals when transactions are mutually agreed by the transacting parties to be intended for multiple years of benefits.	See Memorandum, paragraphs 91 and 92.
035	A	Deferred inflows and outflows should only be included on the statement of financial position if	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 14(a)	STAFF COMMENT
		they meet the characteristics we previously described for liabilities and assets.	paragraphs 91 and 92.

SMC 14(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.

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) DEFINE AS SEPARATE ELEMENTS	**7 (28%)**
(B) INCLUDED AS SUB-COMPONENTS OF ASSETS AND LIABILITIES	**4 (16%)**
(C) INCLUDED AS SUB-COMPONENTS OF NET ASSETS/NET LIABILITIES	**1 (4%)**
(D) N/A, BECAUSE 14(a) NOT ANSWERED "YES"	**10 (40%)**
(E) NO CLEAR VIEW EXPRESSED	**3 (12%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**25 (100%)**
(F) DID NOT COMMENT ON THIS SMC	**10**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 14(b)	STAFF COMMENT
001	A	Deferred inflows and outflows should be disclosed as separate elements in the statement of financial position. This would provide users with valuable information about the Government's resources/obligations which relate to future years service delivery.	See Memorandum, paragraphs 94-96.
002	D	If, however, they are to be included it is essential that they are clearly and separately identified. This would require that they are both defined as separate elements and separately presented from net assets/net liabilities.	See Memorandum, paragraphs 94-96.
003	E	The deferrals should be identified in the statement of financial position, which is alternative (a).(Paragraph Reference 5.6)	See Memorandum, paragraphs 94-96.
004	B	Deferred outflows and deferred inflows are to be included as sub-components of assets and liabilities. NAO believes that this reflects the true nature of deferred outflows and inflows, reduces the number of key elements making up financial statements and thus will make it easier for users of financial statements to understand.	Referred to in Memorandum, paragraph 95.
005	E	Ontario has no strong preference between (i) and (ii) however, under either option the recognition of deferrals are essential for the preparation of meaningful GPFSs. We do not support the inclusion of deferrals as a sub component of net assets/net liabilities. The net assets/net liabilities are best to represent permanent contributions and previous yearly results and not have	Antipathy to option (c) noted.

R#	CATE-GORY	COMMENTS ON SMC 14(b)	STAFF COMMENT
		volatility based in inter-period equity. Deferrals are essentially timing differences in the recognition of revenue and expense, much like accounts payables and receivables are timing differences between cash and accruals and will be settled in due course. As such, we do not believe that deferrals should be included in net assets/net liabilities.	
006	B	Therefore deferrals need to be accounted for in the financial statements and to be included as sub-components of assets and liabilities.	See Memorandum, paragraphs 94-96.
007	D	Not applicable	
008	D	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).	See Memorandum, paragraphs 94-96.
009	A	Most appropriate approach is (a) Defined as separate elements.	See Memorandum, paragraphs 94-96.
010	F	*Did not comment on this SMC.*	
011	C	We favour option (b)(iii) whereby deferrals are included as sub-components of net assets/ liabilities.	See Memorandum, paragraphs 94-96.
012	D	Because the answer to (a) is No, no answer is possible here.	See Memorandum, paragraphs 94-96.
013	D	Not applicable in light of our response to (a) above.	See Memorandum, paragraphs 94-96.
014	A	**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.	See Memorandum, paragraphs 94-96.
015	D	The question can only be answered conclusively in the context of the final definition of liabilities. Should other comments favor a need to identify deferred inflows on the statement of financial position, we would support a definition of deferred inflows as a separate element.	See Memorandum, paragraphs 94-96.
016	F	*Did not comment on this SMC.*	
017	F	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 14(b)	STAFF COMMENT
018	F	*Did not comment on this SMC.*	
019	D	Please see comments above to the specific matter 14(a).	See Memorandum, paragraphs 94-96.
020	A	We support the approach of defining deferred inflows and deferred outflows as separate elements rather than including with the definition of assets and liabilities or net assets and net liabilities. As noted in the CP, identifying deferrals as separate elements will permit IPSASB to continue to use a more traditional definition of assets and liabilities which is better understood by financial statement users. We also believe that defining deferrals as separate elements will provide greater transparency as they will be presented separately on the statement of financial position.	See Memorandum, paragraphs 94-96. Noted that defining as separate elements may allow a definition of assets and liabilities more familiar to many users, as discussed in paragraph 5.7 of Framework-CP2
021	F	*Did not comment on this SMC.*	
022	F	*Did not comment on this SMC.*	
023	D	If deferred inflows and outflows are to be reported on the statement of financial position, then they should be defined as separate components. It is important to keep the asset and liability definitions as pure as possible as these are concepts that transcend sector. If deferred inflows and outflows are defined as separate elements then they can be explained separately and their contribution to financial position and results can be identified and evaluated. If they are defined as separate elements, then the standard setter can set requirements for what is included in each of these categories and when they are released for recognition in annual results.	Noted. See comments on Respondent 20.
024	A	We believe that deferrals should be identified as separate elements on the GPFR. Further, in paragraph 5.6(b), we think current definitions of assets and liabilities already encompass deferrals and no broadening is needed. However, we could accept deferred outflows and deferred inflows as "sub-components of assets and liabilities". More illustrative examples of deferred expenses are needed.	See Memorandum, paragraphs 94-96.
025	F	*Did not comment on this SMC.*	
026	A	It is advisable to define differed elements as separate elements because they do not answer the definition of assets and liabilities.	See Memorandum, paragraphs 94-96.
027	B	These items ought to be considered as assets and liabilities following the preference for the	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 14(b)	STAFF COMMENT
		balance sheet approach retained by the Court of Auditors.	paragraphs 94-96.
028	D	Not applicable, given our response to question 14(a).	See Memorandum, paragraphs 94-96.
029	F	*Did not comment on this SMC.*	
030	D	No response required.	See Memorandum, paragraphs 94-96.
031	F	*Did not comment on this SMC.*	
032	A	With regard to (b), we support the approach in (i) above. If deferred outflows and deferred inflows are included as sub-components of assets and liabilities, users of financial statements may consider deferred outflows and deferred inflows to be the same as traditional assets or liabilities and, therefore, may misunderstand the financial position of public sector entities.	See Memorandum, paragraphs 94-96.
033	F	*Did not comment on this SMC.*	
034	B	Nova Scotia views deferrals to be sub-components of assets and liabilities. We do not support the creation of new elements.	See Memorandum, paragraphs 94-96.
035	E	We therefore do not see any need to include deferred outflows and deferred inflows as separate elements of financial statements.	See Memorandum, paragraphs 94-96.

SMC 14 (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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**5 (25%)**
(B) NO	**3 (15%)**
(C) N/A, BECAUSE NOT DEFINED AS SEPARATE ELEMENTS UNDER 14(b)	**11 (55%)**
(D) NO CLEAR VIEW EXPRESSED	**1 (5%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**20 (100%)**
(E) DID NOT COMMENT ON THIS SMC	**15**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 14(c)	STAFF COMMENT
001	A	ACAG supports the definitions as set out in paragraph 5.8.	See Memorandum, paragraphs 97-99.
002	C	No. The definitions need to specify what is meant by "applicable to the reporting period".	Noted raises a major issue with R & E-led approach.
003	C	The definitions are appropriate.	
004	C	Not applicable.	
005	D	The definition in 5.8 that defines deferred inflows and outflows related to being applicable to a future period appears sufficient, but instead of referencing net assets, may be better defined directly to revenues and expenses applicable to a future period as it references the statement of operations. This wording would need to be more closely considered based on the acceptance of other comments from the conceptual framework Exposure Draft and consultation papers.	Noted view that linkage to net assets inappropriate and preference to to revenues and expenses applicable to a future period..
006	E	*Did not comment on this SMC.*	
007	C	Not applicable	
008	E	*Did not comment on this SMC.*	
009	A	Yes, the definition is given at paragraph 5.8 is suitable.	See Memorandum, paragraphs 97-99.

R#	CATE-GORY	COMMENTS ON SMC 14(c)	STAFF COMMENT
010	E	*Did not comment on this SMC.*	
011	C	Not applicable as we support option (b)(iii) over option (b)(i).	
012	C	Because the answer to (a) is No, no answer is possible here.	
013	C	Not applicable in light of our response to (a) above.	
014	E	*Did not comment on this SMC.*	
015	C	The definition as set out in paragraph 5.8 seems appropriate and complete.	See Memorandum, paragraphs 97-99
016	E	*Did not comment on this SMC.*	
017	E	*Did not comment on this SMC.*	
018	E	*Did not comment on this SMC.*	
019	C	The Task Force has no reservations regarding definitions of a deferred outflow and deferred inflow as set out in para. 5.8 of the Consultation Paper, regardless of whether or not deferred outflows and inflows are defined as separate elements of GPFSs. These definitions are likely to be useful to those preparers of GPFSs who will decide to identify deferrals separately on their statement of financial position.	Noted. Staff has reservations about standards-level options allowing preparers to identify deferrals.
020	A	We believe that the proposed definitions of a deferred outflow and deferred inflow set out in paragraph 5.8 are appropriate and complete. We agree with the proposed term "net assets" to differentiate these deferred items from other transactions that do not result in changes in the net asset amount.	See Memorandum, paragraphs 97-99, noted support for linkage to "net assets".
021	E	*Did not comment on this SMC.*	
022	E	*Did not comment on this SMC.*	
023	C	Yes – they seem appropriate if such deferrals need to be defined as separate elements.	See Memorandum, paragraphs 97-99
024	A	The definitions are adequate but more examples (especially deferred expenses) are needed to explain the application.	Noted view that further examples are needed.
025	E	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 14(c)	STAFF COMMENT
026	B	The definitions set out in paragraph 5.8 would deserve a clarification to be able to answer it.	Noted view that clarification needed, but uncertain what such a clarification would entail.
027	E	*Did not comment on this SMC.*	
028	C	In our view, the definitions of deferred outflow and deferred inflow would be appropriate. However, there would be challenges giving effect to the definitions because the 'applicability of net assets to future reporting periods' does not appear to be well defined, and therefore there is potential to manipulate financial performance. In our view there would need to be robust principles put in place around deferrals to ensure a reasonable level of consistency in what could be deferred.	Reservation on meaning of 'applicability of net assets to future reporting periods' noted. In Staff view this is a significant ambiguity.
029	E	*Did not comment on this SMC.*	
030	B	HoTARAC does not support the use of deferrals, but provides the general comment that the definitions are neither appropriate nor complete. [Refer to comments on the asset liability and revenue expense approaches]. The definitions of 5.8 mirror those of GASB, but do not clearly distinguish deferrals from other balance sheet elements. A deferred outflow defined as 'a consumption or reduction of net assets applicable to future reporting periods', begs the question as to whether capitalised restoration costs (AASB 116.16, IPSAS 17.30(c)) concomitantly qualify as both assets and deferrals.	Referred to in Memorandum, paragraph 98.
031	E	*Did not comment on this SMC.*	
032	B	With regard to (c), if the definition of consumption or reduction (increase or acquisition) of net assets that is applicable to a future reporting period, as set out in paragraph 5.8 is applied, we have concerns that it will not be clear for which net assets the consumption or reduction (increase or acquisition) will be the deferred outflow (inflow), and so deferrals may be accepted without limitation. We propose the following definition of a deferred outflow (inflow): "outflow (inflow) of resources incurred in the current or previous periods, and government services associated with the outflow are objectively expected to become effective in periods subsequent to the current period" We propose the above definition because the requirement of faithful representation will be met	Staff have reservations whether the proposed definition will be clearer than that tentatively suggested in paragraph 5.8. and consider that the phrase "objectively expected to become effective" could be ambiguous. Staff notes the interesting example of local

R#	CATE-GORY	COMMENTS ON SMC 14(c)	STAFF COMMENT
		for outflow (inflow) of resources that clearly become effective in future periods, by allocation over relevant periods. In order to explain our proposal above, we would like to mention some examples commonly found in Japan's public sector. In Japan, local governments are often required to pay to the national government a part of the construction costs of assets such as roads and rivers owned and maintained by the national government, as a non-exchange transfer, despite the fact that local governments do not own or control such assets. An issue concerning the treatment of such payments by the local government has been raised. Such a transfer is not accounted for as an asset of the local government because of absence of ownership or control over the property. However, there are strong arguments that such a transfer should not be included in the financial performance (expense) of the local government when the transfer is incurred. A deferred outflow approach is expected to resolve the issue. People who argue this issue believe that such outflow (transfer to the national government) should be "deferred" in the statement of financial position since the entities (including citizens of the entities) receive benefits of the government services from assets maintained by the national government for a long period. Such a deferral would be depreciated over the useful life of the related assets.	government/central government funding arrangements and the rationale for adopting a deferrals approach.
033	E	*Did not comment on this SMC.*	
034	A	These definitions appear to be appropriate.	See Memorandum, paragraphs 97-99.
035	E	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) RESIDUAL AMOUNT	**11 (39%)**
(B) RESIDUAL INTEREST	**6 (21%)**
(C) OWNERSHIP INTEREST	**1 (4%)**
(D) DEPENDS ON THE ENTITY/JURISDICTION	**8 (28%)**
(E) NO CLEAR VIEW EXPRESSED	**2 (8%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(F) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
001	B	ACAG considers net assets/net liabilities to represent a residual interest as discussed in paragraphs 5.18 to 5.21.	See Memorandum, paragraphs 131-133.
002	A	In principle, we consider net assets/net liabilities to be simply a residual amount. In many cases there is little information content in this amount. However, as noted in our response to SMC 12, it is important that changes in this amount due to transactions with 'owners' are reported transparently.	Referred to in Memorandum, paragraph 132.
003	E	There is an interest in the terms of paragraph 5.18.	
004	C	NAO considers net assets/net liabilities to be an ownership interest since ownership exists in government both at the whole of government level and at entity level.	See Memorandum, paragraphs 131-133.
005	B	We agree with the approach of net assets/ net liabilities to be a residual interest. Predominantly this supports government organizations more than senior level governments and they more frequently have transactions that may be better represented as a contribution/disbursement in net assets because it is not appropriate to be reflected as in-year revenue or expense. We agree the net asset/net liabilities of a government reflect the resources available to finance or deliver future services or amounts of past services that need to be funded through future revenues. A good example is endowments, which are not appropriate to reflect as a current year revenue as it is not available to use to cover in-year expense, but it is also not appropriate to show as a liability as there is no expectation to ever pay it out.	Referred to in Memorandum, paragraph 132.

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
006	A	We consider net assets/net liabilities primary to be a residual amount. Only if entities have an ownership in a GBE that part could be seen as an ownership interest.	See Memorandum, paragraphs 131-133.
007	B	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.	See Memorandum, paragraphs 131-133.
008	F	*Did not comment on this SMC.*	
009	A	In our opinion the net assets/net liabilities should be considered as residual amount.	See Memorandum, paragraphs 131-133.
010	F	*Did not comment on this SMC.*	
011	B	We consider net assets/net liabilities to be a residual interest.	See Memorandum, paragraphs 131-133.
012	D	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".*	Staff needs to clarify the definition of an independent entity.
013	D	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.	Referred to in Memorandum, paragraph 132.
014	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	See Memorandum, paragraphs 131-133.

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
		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. 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.**	
015	D	Generally we consider net assets/net liabilities to be a residual amount. In contrast to the private sector, governments do not have any shareholders and the characteristics of a citizen are not comparable to those of a shareholder. It follows that the ownership interest approach is not relevant at the government level. With regard to the residual interest approach, it is worth considering it for subsidiaries (e.g., agency operations or semi-autonomous entities created by governments as mentioned in paragraph 5.19).	See Memorandum, paragraphs 131-133.
016	F	*Did not comment on this SMC.*	
017	D	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'), it may be helpful to treat the net assets/net liabilities as effectively constituting an 'ownership interest'. A relevant scenario is outlined in paragraph 5.19. An ownership interest might also occur if a jurisdiction allows private investment in a government owned entity. Also where funds or assets are held on trust by the government it may be useful to separately identify the interests of donors and the public, for example where a museum collection is gifted to the state.	See Memorandum, paragraphs 131-133. Examples noted of where an interest might exist.
018	D	The Joint Accounting Bodies agree it is important that the finalised Framework specify the status of ownership-type interests in the public sector. It is our view that when a transaction is one with the holders of residual/equity interests and they acting in that capacity, such transactions should be excluded from revenues and expenses. Therefore, the finalised Framework will need to acknowledge the existence of, on occasions, ownership interests in the public sector and in some cases there may be no identifiable ownership interest. For this reason, we consider that net assets/net liabilities should be regarded as a residual amount, and in many cases, this residual will represent an ownership interest.	Noted view that residual amount may contain a residual (ownership) interest.
019	D	The view of the Task Force is that net assets/net liabilities could be considered as residual interest in the capability of the entity to resource future operations, based on financial expectations of resource providers and service recipients, as outlined in para 5.21 of the	See Memorandum, paragraphs 131-133.

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
		Consultation Paper. It should be noted that residual interest, if any, is usually shared by multiple resource providers which contribute resources to a public sector entity without the intent to receive benefits in exchange. On the other hand, the residual amount approach might also be used as most generic and widely applicable to net assets/net liabilities.	
020	A	Overall, we feel that for a senior government the net assets/net liabilities represent a residual amount.	See Memorandum, paragraphs 131-133.
021	A	In relation to specific matters for comment 15(a) and (b) we consider it essential that the proposed Framework acknowledge the existence of ownership interests in the public sector. In some cases there may be no identifiable ownership interest. For this reason we consider that net assets/net liabilities should be regarded as a residual amount. In many cases this residual will represent an ownership interest.	See comments on Respondent 18.
022	F	*Did not comment on this SMC.*	
023	A	Net assets/net liabilities are a residual amount and should not be defined as an element of financial statements.	See Memorandum, paragraphs 131-133.
024	A	We believe that the net position represents a residual amount which should include minority interests. However, in paragraph 5.19, we think investing should be added whenever the Consultative Paper refers to operating and financing.	Noted view that residual amount might include minority interests.
025	B	In relation to Specific Matter for Comment 15(a), the AASB would prefer that net assets/net liabilities were described as a residual interest rather than a residual amount. The AASB does not support treating net assets/net liabilities as necessarily being an ownership interest because, in some cases, such as local governments in Australia, there may not be an ownership interest in a public sector entity.	Noted view that at some levels of government ownership interests may not arise.
026	A	The notions of ownership interest and residual interest are not applicable to the entities of the public sector in France. So, net assets or net liabilities must be considered as a residual amount.	See Memorandum, paragraphs 131-133.
027	D	The answer will depend on the nature of the entity. For a centralised state, the difference between assets and liabilities will be a residual amount, considering the lack of recognition of sovereignty assets. For other public entities, it may refer to a proprietary interest.	Staff notes the view that issue may depend on level of government.
028	B	In our view, the net assets/net liabilities represent the interests of the ultimate owners, which in the case of a national government are the citizens, and in the case of a state or local government are the citizens within that state or local area. However, for the purpose of the conceptual	Staff notes view that citizens are ultimate owners of national, state and local

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
		framework, it is not necessary that these interests are described as ownership interests. In our view, the more important point is that equity or residual interest is defined as an element and that transactions can occur directly within equity (for example, a contribution from owner or equity contribution).	governments.
029	F	*Did not comment on this SMC.*	
030	A	This matter has been discussed, in part, under 12 (above). HoTARAC considers net asset/net liabilities to be a residual amount. Any ownership (minority) interest on this residual amount can be treated as a sub-class of this residual amount. HoTARAC considers that the concept of ownership exists in government, but more due to government having, and exercising, the legal power and authority as an owner rather than through conventional equity ownership, i.e. it is often not an expectation of government to earn a return on the funds invested in one of its owned entities. However, this can differ markedly between sectors of government, with entities in the corporations sectors more likely to be required to be run on conventional private sector business lines. Entities in the General Government Sector are more likely to have efficiency-related operating conditions imposed, rather than any requirement for a return on capital invested. It should be noted also that Government's ownership interest and authority in its entities exists often through statutory means rather than through the issue of formal equity instruments. If the entity were wound up, the net assets of the entity would likely return to government as the legal owner and to minority interest as equity owner (if any). HoTARAC agrees with comment made in paragraph 5.19 in that Government has an interest in the entity, and has the authority to direct the operating and financing activities of the entity. Government can also require an entity to give up its resource to another entity, such as through machinery of government changes that may impact on its future ability to provide goods/services. HoTARAC views all the above as government acting in its capacity as owner rather than *as interest in the capability of the entity to finance itself and to resource future operations* (paragraph 5.18). Therefore, HoTARAC proposes that the scope of 'ownership interest' be broadened to include such ownership interest for public sector entities in addition to the third parties only 'ownership interest'. HoTARAC would also support discussion of distinguishing between government funding in it capacity as owner (equity) and other (non-equity) government funding to its controlled entities at the General Government sector level. HoTARAC recommends the following criteria be used for defining ownership transactions:	Staff notes especially view that scope of "ownership interest" should be broadened and proposed criteria for defining ownership transactions.

R#	CATE-GORY	COMMENTS ON SMC 15(a)	STAFF COMMENT
		(a) the government can exert control over its own investment, such as being able to sell its investment without unreasonable impediments; (b) the investment entitles the government to a claim on the entity's net assets; (c) there is a reasonable expectation of recovery of the investment (d) the investee must be a GFS non-General Government Sector (non-GGS) entity. A government cannot invest in itself nor in another government.	
031	D	Net assets/net liabilities is the net result of an entity's assets and liabilities and therefore represents a "residual amount". An ownership or residual interest may however be held over the "residual amount" of an entity. Whether a residual interest or ownership interest exists, may depend on the type of entity. For example: • The residual amount of a government agency or unit may represent the taxpayers' residual interest in the net resources available for the provision of future services. • The residual amount of an entity with share capital (stock) may represent the shareholders' ownership interest in the net assets of the entity.	Noted view that residual amounts may include a residual interest.
032	F	*Did not comment on this SMC.*	
033	E	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	A	Nova Scotia views net assets/ net liabilities as a residual amount.	See Memorandum, paragraphs 131-133.
035	F	*Did not comment on this SMC.*	

SMC 15(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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) INCORPORATE IN ELEMENT DEFINITION	**6 (24%)**
(B) DO NOT INCORPORATE IN ELEMENT DEFINITION	**10 (40%)**
(C) NO CLEAR VIEW EXPRESSED	**9 (36%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**25 (100%)**
(D) DID NOT COMMENT	**10**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 15(b)	STAFF COMMENT
001	A	Ownership interests should be clearly defined to ensure outside claims on public sector net assets are disclosed. This would ensure users are aware of any of the Government's net assets which may be attributable to outside third parties such as private enterprise.	Referred to in Memorandum, paragraph 136.
002	B	Where such interests exist: (i) they will not usually meet the definition of a liability; (ii) they should be clearly segregated from other parts of the residual interest; (iii) the surplus or deficit relating to such interests should be transparent. However, minority or noncontrolling interests in a GBE arise only rarely. We suggest that this issue should be dealt with in the development of accounting standards rather than in the Conceptual Framework.	Referred to in Memorandum, paragraph 136.
003	D	*Did not comment on this SMC.*	
004	A	The concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, should be incorporated in the element definition.	See Memorandum, paragraphs 138-140.
005	C	We agree that an appropriate way to reflect minority interest in certain government organizations should be addressed. We do not have a comment on this topic.	Noted view that minority interests need to be addressed.
006	D	*Did not comment on this SMC.*	
007	B	Consistent with response to Specific Matter for Comment 15(a) above, NSW Treasury does not	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 15(b)	STAFF COMMENT
		think the concept of ownership interests should be incorporated in the element definition.	paragraphs 131-133.
008	D	*Did not comment on this SMC.*	
009	B	It will be more appropriate if the concept of ownership interest is treated as subclassification of net assets.	See Memorandum, paragraphs 131-133.
010	D	*Did not comment on this SMC.*	
011	C	We believe that the nature of the residual interest should be made clear in the financial statements.	This implies clear disclosures.
012	A	Yes.	
013	A	Yes.	
014	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.	Noted.
015	A	However, minority or non-controlling interests in consolidated financial statements are different types of capital contributions. Given that fact, we are in favor of incorporating minority or non-controlling interests in the element definition.	Noted.
016	D	*Did not comment on this SMC.*	
017	B	No. CIPFA considers that this could be dealt with as a sub-category of liabilities.	See Memorandum, paragraphs 131-133.
018	B	Therefore, we support the approach set out in paragraph 5.25(a) of defining net assets/net liabilities and treating any specific ownership interest as a sub classification of net assets.	See Memorandum, paragraphs 131-133.
019	C	The concept of ownership interest should only be incorporated in the definition of net assets/net liabilities if it is expected that it will be applicable to majority of GPFSs preparers. Otherwise, it can still be discussed, if considered applicable to some public sector entities, in a more appropriate format within the framework of this Consultation Paper.	Staff notes that ownership interests may not be relevant for many public sector entities, but considers that they may exist quite widely

R#	CATE-GORY	COMMENTS ON SMC 15(b)	STAFF COMMENT
			and need to be addressed, even if as a sub-classification of net assets as considered in paragraph 5.25 of Framework-CP2 (see also Respondent 20 below).
020	C	As a residual, we do not believe that the concept of ownership interests is applicable in a government context except for limited circumstances where a GBE or government subsidiary has a minority investor whose interest should be reflected as a separate component in the statement of financial position.	Noted view that concept of ownership interests is limited.
021	B	We support the approach set out in paragraph 5.25(a) of defining net assets/net liabilities and treating any specific ownership interest as a sub-classification of net assets.	See Memorandum, paragraphs 131-133.
022	D	*Did not comment on this SMC.*	
023	B	We do not feel that the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, should be incorporated in the element definition. Nor do we feel that minority or noncontrolling interests should be reported in government financial statements. Although this is a standards level decision, we suggest that the IPSASB deal with non-controlling interests using proportionate consolidation. This approach means that minority or noncontrolling interests would not need to be incorporated in the element definition (if net assets/net liabilities were defined as an element). If the IPSASB does not favour proportionate consolidation, then we would accept the approach set out in paragraph 5.27. That is, defining ownership interest as a separate element, which characterizes net assets/net liabilities as a residual amount that can be interpreted both as an amount available for financing future operations and ownership interests.	Requirements for accounting for minority interests are, as noted by respondent, a standards level issue. However, Staff notes that the project to revise IPSAS 6-8 may propose elimination of the option to account for such interests by proportionate consolidation. Staff does not think that the argument that proportionate consolidation should be adopted so that minority interests would not need to addressed in the definition is persuasive.
024	C	We believe that the concept of ownership interests should relate to minority interests.	See Memorandum, paragraphs 131-133.
025	C	In relation to Specific Matter for Comment 15(b), the AASB supports the approach set out in	See Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 15(b)	STAFF COMMENT
		paragraph 5.25(a) of the CP that defines net assets/net liabilities and treats any specific ownership interest as a sub-classification of net assets/net liabilities.	paragraphs 131-133.
026	C	The notions of ownership interest and residual interest are not applicable to the entities of the public sector in France. So, net assets or net liabilities must be considered as a residual amount.	See Memorandum, paragraphs 131-133.
027	A	Yes, for the entities concerned.	
028	C	We are somewhat confused by question 15(b) given that GBEs are scoped out of the conceptual framework. Nevertheless, the concept of ownership interests is likely to exist for GBEs, many of which will be companies that issue shares. However, from our experience, it is unlikely that public sector entities, other than GBEs, will have ownership instruments, such as shares. Therefore, minority interests may not be an issue for non-GBEs in the public sector.	It may be comparatively rare but it is possible that ownership interests may exist outside GBEs. See views of Respondent 31 below.
029	D	*Did not comment on this SMC.*	
030	B	Consistent with our comment above, the concept of 'ownership interests' should be broadened and defined, but not as part of the element definition. HoTARAC supports, when relevant, including the concept of outside interests as minority or non-controlling as it shows information about the external claims on the entity's net assets.	Noted, See response to SMC 15(a)
031	C	In the South African public sector, entities do exist that have ownership interests similar to those of GBEs and private sector companies. We would therefore support the concept of an "ownership interest". It is not necessary to consider controlling and non-controlling interests at the level of the conceptual framework; this is a standards-level issue.	Noted.
032	D	*Did not comment on this SMC.*	
033	D	*Did not comment on this SMC.*	
034	B	Nova Scotia does not see this as being necessary.	See Memorandum, paragraphs 131-133.
035	D	*Did not comment on this SMC.*	

SMC 15(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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES	**4 (18%)**
(B) NO	**18 (82%)**
(C) NO CLEAR VIEW EXPRESSED	**-**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**21 (100%)**
(D) DID NOT COMMENT	**13**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 15(c)	STAFF COMMENT
001	B	No.	
002	B	We have not identified any further issues.	
003	D	*Did not comment on this SMC.*	
004	B	None.	
005	B	We have no additional comments on this topic.	
006	D	*Did not comment on this SMC.*	
007	B	No other issue has been identified.	
008	D	*Did not comment on this SMC.*	
009	B	None.	
010	D	*Did not comment on this SMC.*	
011	B	We have no additional issues to raise.	
012	A	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.	Staff need to consider this point further.

R#	CATE-GORY	COMMENTS ON SMC 15(c)	STAFF COMMENT
013	B	Not that we are aware of.	
014	B	The CNOCP has not identified any other issues for consideration in defining the concepts of net assets and net liabilities.	
015	D	*Did not comment on this SMC.*	
016	D	*Did not comment on this SMC.*	
017	B	Not that we are aware of.	
018	D	*Did not comment on this SMC.*	
019	A	Each public sector entity has a distinctively individual history of establishment and relations with resource providers and service recipients. Hence a reporting entity should be allowed to choose how to present its net assets/net liabilities in the GPFSs, including various components of the earlier, to best address needs of users of their GPFSs.	Referred to in Memorandum, paragraph 139.
020	B	*Did not comment on this SMC.*	
021	D	*Did not comment on this SMC.*	
022	D	*Did not comment on this SMC.*	
023	B	No.	
024	B	No other issues need to be considered.	
025	B	In relation to Specific Matter for Comment 15(c), the AASB has not identified any other issues or unique public sector considerations to address in relation to the concept of net assets/net liabilities.	
026	B	According to the DGFiP, there are no other considerations, specific to the public sector, necessary to analyse to define the concepts of net assets or net liabilities.	
027	B	No.	
028	B	In our view, there are no other relevant issues that the IPSASB needs to consider in determining the concept of net assets/net liabilities.	
029	D	*Did not comment on this SMC.*	
030	A	HoTARAC believes there should be some discussion on the transfer of resources between units	Referred to in Memorandum,

R#	CATE-GORY	COMMENTS ON SMC 15(c)	STAFF COMMENT
		within the general government sector. For example, this might arise as a result of a government decision to restructure its internal functions. In these circumstances, are the resources transferred directly between the units or do they represent a change in ownership interests by the controlling unit? This also comes back to the issue of differing concepts of 'ownership' discussed in (a) above, in relation to sectoral and consolidated reporting. For example, in the GFS framework, the General Government Sector represents the controlling interest in the other sectors of government. However, at the whole of government consolidated level this notion 'government' as owner virtually disappears.	paragraph 139.
031	B	We could not identify any additional characteristics or other issues that require consideration in the development of concepts related to net assets/net liabilities.	
032	D	*Did not comment on this SMC.*	
033	D	*Did not comment on this SMC.*	
034	A	Nothing significant. Nova Scotia would view any "ownership" interest concept as relating to the accumulated surplus/ deficit position of a jurisdiction, not the net asset/ liability position. This concept is not viewed as being particularly relevant in the public sector however when the result would potentially be recognizing certain transactions directly to "equity". This concept would result in the province being better or worse off and in such a case that transaction would be expected to flow through the statement of operations.	Noted view is consistent with response to SMC 15 (a) and 15(b).
035	D	*Did not comment on this SMC.*	

SMC 16(a):Should transactions with residual/equity interests be defined as separate elements?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES: DEFINE AS SEPARATE ELEMENTS	**7 (27%)**
(B) NO: DO NOT DEFINE AS SEPARATE ELEMENTS	**11 (42%)**
(C) ANOTHER VIEW OFFERED, OR NO CLEAR VIEW EXPRESSED	**8 (31%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**26 (100%)**
(D) DID NOT COMMENT	**9**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 16(a)	STAFF COMMENT
001	A	As noted in the response to question 15(b) above, ACAG supports equity interests being separately defined.	See Memorandum, paragraphs 141-144.
002	A	Yes. Please refer to our answer to SMC 12 (a).	
003	D	*Did not comment on this SMC.*	
004	A	NAO believes that transactions with residual/equity interests are to be defined as separate elements.	
005	C	In the Consultation Paper, IPSASB states that the reported net position assists users in assessing the management of the entities short-term financial capacity and its ability to sustain programs and services on a long term basis. Gross Domestic Product and economic conditions that are outside the purpose and scope of GPFS are more indicative of future resources available and the ability to sustain operations and should not be a consideration when developing a framework for GPFS. We believe that further research/discussion is needed in this area. Net asset/liability could be significantly different under the different proposals in the Consultation Papers; for example, the recognition of deferrals, assets and liabilities. Under the different proposals, there are different risks regarding understanding the GPFS and of the public misinterpreting reported data. IPSASB instructs Government Business Enterprises (GBE) to follow IFRS and as such, any outside third party interest will be accounted for appropriately under IFRS and the consolidation process. However, it is not clear how the "interest" theory would apply to non-GBE crown corporations. In Canada, PSAB was designed only with senior governments in mind, and has yet to address	Reservation noted and view that need for further research.

R#	CATE-GORY	COMMENTS ON SMC 16(a)	STAFF COMMENT
		this issue. Funds given to crowns could be considered a grant or capital infusion. The probability of a government organization in Canada with third party equity interest following IPSAS is unlikely.	
006	D	*Did not comment on this SMC.*	
007	B	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.	See Memorandum, paragraphs 141-144.
008	D	*Did not comment on this SMC.*	
009	B	The transactions should be included as subclassification of net assets.	See Memorandum, paragraphs 141-144.
010	D	*Did not comment on this SMC.*	
011	A	We agree that transactions with residual/equity interests should be defined as separate elements.	See Memorandum, paragraphs 141-144.
012	A	Yes. They should be disclosed in the movement on equity.	
013	C	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.	See Memorandum, paragraphs 141-144.
014	C	The CNOCP believes that the objectives pursued in this point require clarification, in particular with reference to the preceding questions (12 and 15).	Referred to in Memorandum, paragraph 143.
015	B	We refer to our comments regarding the specific matters for comment 12 and 15. In general we consider net assets/net liabilities as a residual amount. Moreover, most of the transactions with holders of a residual/equity interest should be included as revenues and expenses. We feel that the discussion about that matters for comment should help to provide more clarity in this respect, too.	See Memorandum, paragraphs 141-144.

R#	CATE-GORY	COMMENTS ON SMC 16(a)	STAFF COMMENT
016	D	*Did not comment on this SMC.*	
017	C	Only where: – An 'ownership interest' exists as outlined above at Specific Matter for Comment 15 – The transactions are not related to operating activities (i.e. they are restricted to capital injections or payment to the 'ownership interest' by means of 'dividends' or other distribution of accumulated surpluses.	See Memorandum, paragraphs 141-144.
018	B	No, the Joint Accounting Bodies do not believe it is necessary to define as separate elements transactions with residual/equity interests. While we consider that net assets/net liabilities should be regarded as a residual amount, and in many cases, this residual will represent an ownership interest, there will not be an identifiable ownership interest in every case. If a residual amount approach is adopted, we do not consider that this precludes acknowledgement of ownership interests. However, we do not consider that ownership interests should be defined as a separate element.	Noted view that residual amount approach does not preclude presentation of ownership interests.
019	B	The Consultation Paper recognizes the fact that a residual interest is far less applicable to public sector entities as compared to private sector entities and, if at all applicable, it usually represents an interest in the entity's operating capability rather than "ownership interest". In addition, a residual interest is "unlikely to be able to be sold, exchanged, transferred, or redeemed. This type of interest may lead to entitlements in the event of an entity being wound up, although this may not be explicitly stated" (para. 5.37). The Task Force therefore supports the option of reflecting fairly the items/transactions with residual/equity interest without creating the need for a separate element.	See Memorandum, paragraphs 141-144.
020	A	We do feel that transactions with residual/equity interests should be defined as separate elements.	See Memorandum, paragraphs 141-144.
021	B	In relation to specific matter for comment 16(a) we do not consider that residual/equity interests should be defined as separate elements. We disagree with the assertion in paragraph 5.33 that if a residual amount approach is taken to net asset/net liabilities that it would be inappropriate to separately identify and represent the existence of transactions that impact on that residual. We consider that a residual amount approach is the most appropriate because there will not be an identifiable ownership interest in every case. If a residual amount approach is adopted, we do not consider that this precludes acknowledgement of ownership interests. However, we do not consider that ownership interests should be defined as a separate element.	See comments on Respondent 18.

R#	CATE-GORY	COMMENTS ON SMC 16(a)	STAFF COMMENT
022	D	*Did not comment on this SMC.*	
023	B	No.	
024	B	Such transactions need not be separately defined.	See Memorandum, paragraphs 141-144.
025	C	In relation to Specific Matter for Comment 16(a), the AASB is of the view that transactions with residual interest holders could, but would not necessarily, be defined as separate elements. This would depend on the wording of the definitions. However, it is important to define transactions with residual interest holders because reference is made to those transactions in existing definitions of revenues and expenses.	Referred to in Memorandum, paragraph 143.
026	C	The DGFiP considers that it would be advisable to clarify the objectives aimed by this point, as well as the notion of transactions with residual interests within the framework of the public sector.	Referred to in Memorandum, paragraph 143.
027	C	This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recognition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recognition in the form of capital investments.	
028	B	In our view, transactions with residual/equity interests do not need to be defined as separate elements, so long as equity is defined as an element. In our view, equity is one of the basic building blocks of financial reporting, in the same way as assets and liabilities. The basic equation for a statement of financial position is assets less liabilities equals equity, and it is important to us that those three elements are appropriately recognised so that amounts can be directly allocated to the elements as appropriate.	Noted view that equity should be defined as an element. Framework-CP2 used the term net assets/net liabilities as more appropriate to public sector circumstances, although it did acknowledge use of the term equity (se paragraph 5.12 of Framework-CP2)
029	D	*Did not comment on this SMC.*	
030	B	As stated above in response to Specific Matter for Comment 12(a) and 15, HoTARAC supports net asset/liability being a residual amount. Accordingly it is not a separate element and a definition is not required.	See Memorandum, paragraphs 141-144.

R#	CATE-GORY	COMMENTS ON SMC 16(a)	STAFF COMMENT
031	A	Residual or equity interests should be distinguished from other elements. Consequently, they should be identified as a separate element. As various interests may be held over the residual amount of an entity (i.e. a residual or ownership interest), residual interests and ownership interests could be defined as a sub-set of the residual amount (net assets/net liabilities).	See Memorandum, paragraphs 141-144.
032	D	*Did not comment on this SMC.*	
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	B	We do not feel these need to be defined as separate elements.	See Memorandum, paragraphs 141-144.
035	D	*Did not comment on this SMC.*	

SMC 16(b):If defined as separate elements, what characteristics would you consider essential to their definition?

R#	CATE-GORY	COMMENTS ON SMC 16(b)	STAFF COMMENT
001	N/A	ACAG considers the definition should focus on equity interests that are external to the public sector entity. Therefore, essential elements would be: - the contribution / distribution relates to an external party; and - contributions entitle the external party to future economic benefits and/or distribution of any asset excess on the entity being dissolved.	Noted. Both characteristics were identified in paragraph 5.34 of Framework-CP2.
002		As noted in our answer to SMC 12 (a), only transactions that are with parties that are 'owners' in their capacity as owners should be within the definition.	
003		*Did not comment on this SMC.*	
004		NAO considers the characteristics mentioned in Section 5.34 as all relevant to the definition. It would however like to distinguish between the residual/equity attributable to the entity and the residual/equity attributable to non-controlling interests. NAO would also like to include changes in accounting policies.	Staff agrees that disclosing changes in accounting policies is important, but does not think that changes in accounting policies is a characteristic of the definition.
005		*Did not comment on this SMC.*	
006		*Did not comment on this SMC.*	
007		Not applicable.	
008		*Did not comment on this SMC.*	
009		NA (Not Applicable).	
010		*Did not comment on this SMC.*	
011		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.	Noted. Staff thinks these characteristics are consistent with those in paragraph 5.34 of Framework CP-2.

R#	CATE-GORY	COMMENTS ON SMC 16(b)	STAFF COMMENT
012		For example, the caption that is concerned within equity and clear criteria as to when recording within equity is permitted and when not.	
013		See response to Specific Matter for Comment (16a).	
014		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.	Referred to in Memorandum, paragraph 146.
015		*Did not comment on this SMC.*	
016		*Did not comment on this SMC.*	
017		See above.	
018		*Did not comment on this SMC.*	
019		The Task Force reiterates its position, described above, of not creating separate elements for transactions with residual/equity interest. However, if these transactions were to become separate items, characteristics (a) and (b) contained in para. 5.34 of the Consultation Paper would be relevant. Characteristic (c) would need to be modified to remove link between a contribution and entitlement to distribution of future benefits or service potential and characteristic (d) is considered to be not applicable in public sector context.	Staff unclear of rationale why characteristic (c) would need to be modified.
020		*Did not comment on this SMC.*	
021		*Did not comment on this SMC.*	
022		*Did not comment on this SMC.*	
023		The characteristics in paragraph 5.34 (a)-(d) seem appropriate.	
024		If recognized, they should be relevant and reliable.	
025		*Did not comment on this SMC.*	
026		The DGFiP considers that it would be advisable to clarify the objectives aimed by this point, as well as the notion of transactions with residual interests within the framework of the public sector.	Framework CP-2 discussed the need for defining transactions with residual interests in paragraphs 5.31-5.40 without putting forward

R#	CATE-GORY	COMMENTS ON SMC 16(b)	STAFF COMMENT
			a view that such elements are necessary.
027		*Did not comment on this SMC.*	
028		In our view, if equity or the transactions within equity were defined as separate elements, it would be important to link them with capability and capacity decisions of governments, or other public sector entities that make such decisions. In New Zealand, the government gives effect to this concept by making budget decisions to appropriate capital to public sector entities that are part of the government. The capital appropriations are typically to increase an entity's capability or capacity. A capital appropriation inflow in the financial statements of a public sector entity is basically capital introduced, and in our view is most appropriately accounted for as an equity contribution.	Noted view that such capital inflows are equity contributions.
029		*Did not comment on this SMC.*	
030		*Did not comment on this SMC.*	
031		We are of the view that the characteristics already listed in paragraph 5.34(a) to (c) are essential in defining a residual or ownership interest. The characteristic in paragraph 5.34(d) is not unique to residual or ownership interests; they are also characteristics of liabilities.	Noted view that characteristic (d) is inappropriate.
032		*Did not comment on this SMC.*	
033		*Did not comment on this SMC.*	
034		We have not given this idea sufficient consideration to comment.	
035		*Did not comment on this SMC.*	

SMC 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 measurement attribute?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A)THRESHOLD APPROACH	**4 (13%)**
(B) NEUTRAL JUDGMENT BASED ON ASSESSMENT OF ALL AVAILABLE EVIDENCE	**14 (47%)**
(C) APPROACH BASED ON MEASUREMENT ATTRIBUTE	**1 (3%)**
(D) NO CLEAR VIEW EXPRESSED, OR ANOTHER APPROACH PREFERRED	**11 (37%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30 (100%)**
(E) DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
001	B	ACAG believes that a sound conceptual framework is critical for appropriate element recognition. Provided this is in place, entities should be capable of making neutral, principles based judgments when deciding whether an element is recognised. Bright line tests such as 'probable' or 'more likely than not' often introduce recognition points which cannot be rationally or conceptually supported and often small deviations in assumptions can lead to a transaction being included or excluded from the financial reports.	See Memorandum, paragraphs 100-107. Noted reservations about bright line tests.
002	B	We are generally supportive of a neutral judgment approach for recognition criteria. In our view, robust recognition principles are an essential element of a satisfactory and workable framework that should ensure financial statements are not cluttered with information about assets and liabilities that are of doubtful relevance (such as some intangible assets currently recognised on a business combination). The recognition criteria should require that assets and liabilities are recognised only where there is adequate evidence of their existence, and a measurement basis that can be expected to be sufficiently relevant, reliable and verifiable can be identified. Relevance is not mentioned in the context of recognition in the IASB's Framework, but FASB Concepts Statement #5 gives as one of its recognition criteria 'It has a relevant attribute measurable with sufficient reliability'. We prefer the FASB's approach, as we do not consider an asset should be recognised if the only practicable measurement attribute is devoid of relevance.	See Memorandum, paragraphs 100-107. FASB emphasis on relevance noted.
003	B	The (b) approach "Use all available evidence to make neutral judgments about the element's existence" is the most appropriate with the scope of paragraph 6.14.	See Memorandum, paragraphs 100-107.

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
004	B	NAO believes that recognition criteria address evidence uncertainty by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence. This will help the reporting entity better determine whether a transaction meets the definition of an asset or liability.	See Memorandum, paragraphs 100-107.
005	B	Recognition criteria should address evidence uncertainty by requiring a neutral judgment whether an element exists at the reporting date based on assessment of all available evidence. This approach provides better information because the recognized elements better meet the qualitative characteristics of faithful representation, relevance, and comparability. The approach is similar to the current Canadian Public Sector approach to make a judgment whether the future economic benefits are "expected … (to) be obtained or given up" at the reporting date.	See Memorandum, paragraphs 100-107.
006	E	*Did not comment on this SMC.*	
007	B	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.	See Memorandum, paragraphs 100-107.
008	E	*Did not comment on this SMC.*	
009	B	In our opinion the recognition criteria should require a neutral judgment based on assessment of all available evidence.	See Memorandum, paragraphs 100-107.
010	E	*Did not comment on this SMC.*	
011	B	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.	See Memorandum, paragraphs 100-107.
012	D	No criterion is preferred.	
013	C	We support the 'measurement attribute' approach.	
014	D	**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.	
015	D	How to deal with uncertainty is a question of major importance. Generally we attach importance to the feasibility of guidelines and therefore support a "more likely than not" approach. However, we do not see any public sector specific reasons regarding that issue that would justify deviation from private sector developments. For this reason, we recommend referring to the current	Staff tends to agree that this area does not raise particular public sector issues, but does not consider

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
		developments at the IASB.	that it is appropriate to follow IASB approach without full consideration of issues
016	D	In relation to this the Danish public sector requirements follow the Danish national GAAP and e.g. contain the elements debt obligations, provisions and contingent assets/liability. This handles different degrees of uncertainty by using thresholds as • *probable* • *more likely than not* • *possible but not likely*. However, the public sector accounting requirements deviate regarding impairment as impairment tests are not applied and there has to be a very substantial/significant reason for impairment. This deviation is again based on considerations regarding the Danish appropriation system and to limit the liberty of making judgment in the financial statements of central government institutions.	Staff unclear why evidence uncertainty is linked to impairment. Paragraph 6.19 of Framework-CP2 did discuss impairment in context of a threshold test for continued recognition.
017	A	We support the use of an evidence threshold approach, but it is difficult to separate the discussion of whether an event has occurred which potentially warrants recognition, from consideration of whether a reliable measurement approach is available.	View of linkage between existence and measurement uncertainty is noted.
018	B	The Joint Accounting Bodies support a recognition criteria that requires preparers to utilize neutral judgment to review and assess all available evidence in determining whether sufficient evidence exists that an asset or liability should be recognised initially, whether it continues to qualify for recognition, or whether there has been an addition to an existing asset or liability.	Referred to in CF Memorandum, paragraph 103.
019	D	Considering the significant diversity of items and transactions that a reporting entity is involved and complexity of recognition stage of the accounting process, the Task Force holds the view that limiting recognition criteria to just one method may negatively impact on quality of the outcome. Hence a reporting entity should be able to use either evidence thresholds or a neutral judgment to deal with evidence uncertainty in recognition of items in GPFSs, as long as the preferred method is used consistently, in order to produce the GPFSs which provide a fair depiction of the relevant economic phenomena. Items that cannot be reliably measured cannot be recognized in the GPFSs, therefore a measurement attribute is essential in forming recognition criteria, regardless of whether an entity	Staff has reservations whether approaches (a) and (b) can be harmonized.

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
		uses evidence thresholds method or neutral judgment method.	
020	D	We refrain from commenting on the proposals for addressing evidence uncertainty as we feel that it is necessary to obtain an understanding of the specific thresholds which would be applied and whether certain exclusions would exist. As we have noted previously in our comments on the definition of assets and liabilities, we have concerns with introducing broad definitions that capture assets such as Crown land, forest and water rights, or mineral resources, in particular if they would also qualify for recognition. We believe that recognition of these resources would introduce significant challenges for governments in developing a methodology for measurement, with little usefulness to financial statement users. We would support looking to a government decision as indication of the existence of an element over strict evidence thresholds.	The determination of specific thresholds is a standard-level issue.
021	B	In relation to specific matter for comment 17(a) we support requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence (as discussed in paragraphs 6.4 to 6.19 of the CP).] We note that, in the context of its Liabilities project, the IASB has considered the difficulties that can arise in applying this approach to events with uncertain outcomes such as lawsuits. The IASB has decided tentatively to specify that, in situations of uncertainty, existence of the obligation is met if the available evidence indicates that it is more likely than not that a liability exists. We note that although the IASB's Framework project will be informed by the thinking on this project, the IASB's decision has been made in the context of developing an IFRS rather than at the Framework level. We consider that the Framework should provide guidance for the development of standards, and should not attempt to address standards-level issues. This is consistent with our view that the definitions of elements should be broad and that definitions and recognition criteria should be addressed separately.	IASB consideration of lawsuits noted. Staff agree that Framework should address standards-level issues.
022	D	The relevant threshold is asset/liability materiality.	Phase 1 noted materiality as a pervasive constraint. However, Staff does not consider materiality a recognition threshold.
023	A	Recognition criteria should definitely <u>not</u> address existence uncertainty by basing the approach on the measurement attribute (i.e., the "situational" approach). This approach does not meet the qualitative characteristics of understandability to users unless all items are measured at fair value.	

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
		This approach should not be adopted for a mixed measurement model. Requiring a neutral judgment as to whether an element exists at the financial statement date based on an assessment of all available evidence is theoretically sound. However, we are not sure how consistent such an approach will be in application. Neutrality in judgment may be difficult to achieve and judgments may differ among individuals. We also appreciate the cost argument set out in paragraph 6.13 and the concern raised at the end of paragraph 6.12 around the possibility that items with a low probability of existence will be recognized when disclosure may be more appropriate. So this would be our second choice of the three approaches if a threshold approach is not adopted. Ultimately, our first choice is a standardized threshold approach. We feel that it is the most pragmatic and simplest for users to understand. Consistent definitions of the thresholds and criteria for considering when those thresholds have been met in substance would amplify and assist in the application of this approach.	Referred to in Memorandum, paragraph 101.
024	B	We support neutral judgment using the "more likely than not" criteria. Thus, we think that unliquidated liabilities would be recognized on the face of the financial statements since, in most cases, they are more like than not to occur.	Noted. See Memorandum, paragraphs 100-107
025	B	As reflected in comments throughout this submission, the AASB is of the view that the recognition criteria should be: (a) separate from definitions of the elements of financial statements; and (b) neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in specifying the same recognition threshold for all assets and liabilities.	Noted. See Memorandum, paragraphs 100-107
026	B	Considering the definition of assets and liabilities which bases itself in particular on the reliable character of the evaluation, the DGFiP considers that the notion of threshold is not relevant. The significant character or not of an element is the affair of the entity judgment. It must not be expressed in the accounting standards.	See Memorandum, paragraphs 100-107
027	D	The recognition of an asset and a liability should only be carried out where its measurement is reliable.	Measurement uncertainty was discussed in paragraphs 6.20-6.22 of Framework CP-2
028	A	In our view, recognition criteria should address evidence uncertainty by requiring an evidence threshold, such as a requirement for it to be probable that future economic benefits or service	Reservations over what is termed measurement

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
		potential associated with an item will flow to or from the entity before an asset or liability is recognised. We would be concerned if recognition in the public sector was based on a measurement attribute approach, because the majority of public sector entities do not operate in a market environment. Therefore, a measurement attribute approach is likely to be open to manipulation of probabilities of inflows and outflows, and is likely to produce financial information that, in our view, is not meaningful to users. For example, recognising a liability of CU200,000 based on a 90% chance of no outflow, and a 10% chance of a CU2,000,000 outflow is not particularly meaningful to a user, given that the only possible outcomes are zero or CU2,000,000. Also, there can be debates about the percentages attributed to the possible outcomes, resulting in a liability being recognised based on questionable information. In our view, narrative disclosure of the possible outflow of CU2,000,000 is likely to be more meaningful and relevant to users of the public sector entity's financial statements in this example.	attribute approach are acknowledged.
029	D	The paper provides a good discussion of recognition issues. The Province understands that many of its concerns regarding defining mineral deposits and forests on Crown land as assets may be resolved through a decision to accept that these assets even though they may exist they may not be recognized. There is concern with IPSAS 27 relating to Forestry and the suggestion in the paper that mineral rights might constitute assets. The practice is not to recognize any assets that have not been paid for and for which the cost is not determinable. Regarding liabilities, recognition is dependent on the occurrence of a past event that triggers the liability although is some cases estimates may be used to measure the current cost to settle the liability. The Province does support the establishment of an element to recognize deferred revenue where appropriate and does not support attempts by some to require deferred revenue to meet a narrow definition of a liability in order to be recognized.	Noted.
030	A	HoTARAC supports a threshold for the recognition of accounting elements. It is recommended that three criterions are to be satisfied before an accounting element can be recognised. The first criterion is that the definition of an accounting element must be met. The second criterion is that it is "probable that there will be an inflow/outflow of resources". The third criterion is that the accounting element or transaction must embody the qualitative characteristics (e.g faithful, relevance, verifiability, etc...).	Noted esp. view that element or transaction must embody QCs
031	D	Conceptually, if rights or obligations exist that otherwise meet the definition of assets and liabilities, they should be recognised. The extent to which they are likely, probable or certain	

R#	CATE-GORY	COMMENTS ON SMC 17(a)	STAFF COMMENT
		should be reflected in their measurement. It may however be questionable whether such information would be useful to users of the financial statements, and whether in fact the information would be understandable as complex measurement techniques would need to be used. From this perspective, it may be useful to impose a "hurdle" for the recognition of assets and liabilities in the financial statements. This would ensure that only those assets and liabilities that meet a threshold (e.g. the inflow of benefits is probable or certain) are recognised, and would provide a consistent basis for users to understand what it means when these items are reflected on the financial statements. In applying this "hurdle", it is anticipated that a two-step approach is followed in recognising assets and liabilities: 1. An entity assesses whether it meets the definition of an asset or a liability. 2. An entity assesses whether the asset or liability meets the recognition criteria. We are cognisant of the fact that the thinking in the private sector may be to combine a "hurdle" such as probability, into the measurement of an asset and a liability. It may be appropriate to apply such an approach to the private sector where the main objective is to value the business, determine a share price and quantify risk. The objectives for preparing GPFSs in the public sector are different and, as a result, a different approach to recognising assets and liabilities may be justified in the public sector.	
032	E	*Did not comment on this SMC.*	
033	D	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	B	Nova Scotia would support the requirement of a neutral judgment whether an element exists at the reporting date based on an assessment of all reasonably available evidence. The principle of conservatism we feel is not appropriate to include in the conceptual framework. We feel the neutral judgment will still factor in likelihood of occurrence with other facts to lead to the best estimation of management.	
035	E	*Did not comment on this SMC.*	

SMC 17(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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) UNIFORM THRESHOLD	**6 (27%)**
(B) NOT A UNIFORM THRESHOLD	**-**
(C) DON'T SUPPORT THRESHOLD APPROACH	**15 (68%)**
(D) NO CLEAR VIEW EXPRESSED	**1 (5%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**22 (100%)**
(E) DID NOT COMMENT	**13**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 17(b)	STAFF COMMENT
001	C	Refer comments in (a) above. (SMC 17(a))	
002	C	We do not consider that it would be appropriate for the Framework to specify specific thresholds for the recognition of assets and liabilities in financial statements. The degree of uncertainty that may be tolerated might not necessarily be the same in all cases due to the need to balance reliability and relevance. For example, it might be considered that the relevance of pension obligations is sufficiently high that they should be recognised, notwithstanding a degree of variability in their measurement that would preclude recognition in another case. In our view, the application of the recognition criteria is best dealt with in the development of accounting standards or, in the absence of an accounting standard, by the professional judgement of the preparer. As noted in the Phase 1 ED, caution needs to be exercised in dealing with uncertainty (paragraph 3.15). We therefore would expect that standards might in particular cases provide stricter recognition requirements for assets than for liabilities.	Noted. See Memorandum, paragraphs 106-107.
003	E	*Did not comment on this SMC.*	
004	C	Not applicable.	
005	C	We do not support the threshold approach thus we have no further comments.	
006	E	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 17(b)	STAFF COMMENT
007	C	Not applicable.	
008	E	*Did not comment on this SMC.*	
009	C	NA.	
010	E	*Did not comment on this SMC.*	
011	C	Not applicable, we support the neutral judgement approach.	
012	C	Because under (a) no criterion is preferred, an answer is not possible here.	
013	A	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.	Referred to in Memorandum, paragraph 106.
014	C	Not applicable, as the CNOCP does not agree with the notion of threshold.	
015	C	However, if the threshold approach were to be chosen, we would support a uniform threshold for both assets and liabilities. This follows from the premise that there should be a balanced asset and liability definition.	Noted.
016	E	*Did not comment on this SMC.*	
017	A	We agree that a uniform threshold should be adopted in principle for the recognition of both assets and liabilities. Inasmuch as the threshold relates to the likelihood that an asset or liability exists, we suggest that the starting point should be that it is 'probable' or 'more likely than not'.	Referred to in Memorandum, paragraph 106.
018	E	*Did not comment on this SMC.*	
019	A	The Task Force supports the proposed position to use a uniform threshold approach for both assets and liabilities by those reporting entities which choose to use the threshold approach. This position is acceptable as long as it improves usefulness of GPFSs for their users, especially since IPSASB considers that prudence should not be a factor in determining threshold criteria. Those reporting entities which choose to use the threshold approach for their recognition criteria should be able to choose the level of the threshold which is relevant to their GPFSs. The entities should be required to disclose the threshold level in their accounting policy, contained in the GPFSs, along with an explanation of why this level of the threshold was used, to increase transparency of accounting policies used to prepare GPFSs.	Staff does not agree that preparers should be given full discretion over threshold levels. This would potentially undermine comparability.
020	D	As noted in response to the previous question, we find it difficult to provide specific comments	

R#	CATE-GORY	COMMENTS ON SMC 17(b)	STAFF COMMENT
		on thresholds for recognition without understanding how they would be applied under the proposed asset definitions. However, if a threshold or situational approach is used, we are of the view that it will likely be necessary to establish different thresholds for assets and liabilities, reflecting the nature of each element.	
021	C	Specific matter for comment 17(b) is not applicable based on our response to (a).	
022	E	*Did not comment on this SMC.*	
023	A	There should be a uniform threshold for both assets and liabilities. The threshold in the PSA Handbook, which is currently included in the asset and liability definitions and in the general recognition criteria, is "expected". FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.56 defines "expected" as: "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved. The use of the word in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items that do not meet the definition of one of the elements of financial statements. We suggest that separate criteria be established at the standards level to deal with contingent assets and liabilities rather than mixing the threshold for their recognition in with the threshold for assets and liabilities. This separation would be less complex and confusing for both users and preparers. The PSA Handbook does not yet address contingent assets. The threshold for contingent liabilities is "likely" and is explained in CONTINGENT LIABILITIES, Section PS 3300 as follows: The determination of whether a liability exists at the financial statement date depends on an assessment of the probability of a future event occurring or not occurring confirming that a liability existed at the financial statement date. The uncertainty relating to the occurrence or non-occurrence of the future event(s) can be expressed by a range of probabilities. Three areas of this range are as follows: (a) likely — the probability of the occurrence (or non-occurrence) of the future event(s) is high; (b) unlikely — the probability of the occurrence (or non-occurrence) of the future event(s) is slight; and (c) not determinable — the probability of the occurrence (or non-occurrence) of the future event(s) cannot be determined. These Canadian thresholds ("expected" and "likely") are both higher than that used by the IPSASB in its general recognition criteria – i.e., "probable". The threshold of "probable" has	Referred to in Memorandum, paragraph 106.

R#	CATE-GORY	COMMENTS ON SMC 17(b)	STAFF COMMENT
		been defined to mean "more likely than not", which could mean a percentage of 50.1%. This threshold encompasses assets and liabilities and contingent liabilities. The "likely" threshold used for contingent liabilities in the PSA Handbook is usually interpreted to mean greater than 70%. Thus the current International Public Sector Accounting Standards (IPSASs) would already require a public sector entity to recognize more assets, liabilities and contingent liabilities than the PSA Handbook. We are not sure what threshold to suggest. We request that, if the IPSASB adopts a threshold approach or even a situational approach for the ED on Elements, that the document provide an analysis of the relative merits of/issues associated with, the different possible thresholds.	
024	C	We support a neutral judgment to determine if the asset or liability should be recognized.	
025	C	Neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in in specifying the same recognition threshold for all assets and liabilities.	
026	E	*Did not comment on this SMC.*	
027	E	*Did not comment on this SMC.*	
028	A	In our view, there should be a "probable" threshold for the recognition of both assets and liabilities.	Noted. See Memorandum, paragraphs 106-107.
029	E	*Did not comment on this SMC.*	
030	A	HoTARAC supports a uniform threshold of probable. A situational approach would appear to be a more faithful representation and would be consistent in, some way, with IFRs and GFS. HoTARAC has previously opposed the elimination of probability recognition criteria in its response to ED 191. Other comments HoTARAC prefers the 'probable' threshold and believes that a clear definition and guidance on the phrase needs to be provided. However, HoTARAC notes that IFRS aligns better with the proposed approach based on the measurement attribute, most likely because IFRS proposals are based on a market value and thus does take into account probability in the measurement. Given that govemment assets are more likely to be measured at depreciated replacement cost, it makes for an argument to apply a probability threshold.	Referred to in Memorandum, paragraph 106.
031	C	The recognition criteria for assets and liabilities should be similar. Historically, the recognition of assets has been relatively conservative, while the opposite is true for liabilities. This skewed	Issue addressed in Framework CP-2 paragraph

R#	CATE-GORY	COMMENTS ON SMC 17(b)	STAFF COMMENT
		approach to the recognition of assets and liabilities has not always provided a "fair presentation" of an entity's financial position because of the use of different hurdles such as "virtually certain" versus "more likely than not".	6.9
032	E	*Did not comment on this SMC.*	
033	E	*Did not comment on this SMC.*	
034	C	We do not agree with the threshold approach.	
035	E	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES: SAME CRITERIA	**23 (82%)**
(B) NO: DIFFERENT CRITERIA	**1 (4%)**
(C) NO CLEAR VIEW EXPRESSED	**4 (14%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 18	STAFF COMMENT
001	A	ACAG agrees with paragraph 6.25 and supports uniform criteria for recognition and derecognition.	See Memorandum, paragraphs 148-151.
002	C	We believe the most helpful approach is start with the presumption that a recognised asset or liability should continue to be recognised until a new transaction or event suggests that it should be derecognised (for example because it has been disposed of or settled) or its measurement should be changed (for example, as a result of changing prices). We acknowledge that a possible consequence of this approach is that an entity may continue to recognise items although similar rights and obligations could have been acquired in a different way without giving rise to assets and liabilities. This arguably impairs comparability. However, the advantage is that it permits a fuller and more understandable presentation of the effect of transactions and events of the year on the entity's assets and liabilities. It is also consistent with the objective of accountability that an entity should continue to account for assets and liabilities, unless it is clear that they have been disposed of or settled.	Noted. Approach appears to incorporate aspects of neutral judgment approach for addressing evidence uncertainty.
003	A	We support the use of the same criteria for derecognition that we use for initial recognition.	See Memorandum, paragraphs 148-151.
004	A	Yes, NAO supports the use of the same criteria for derecognition as for initial recognition. This would ensure consistency in the approach to recognising and derecognizing elements in the financial statements.	See Memorandum, paragraphs 148-151.
005	A	Yes, we support the use of the same criteria for de-recognition as for initial recognition. Using different criteria for de-recognition from for initial recognition may result in assets/liabilities that no longer meet the definition and recognition criteria but still exist on the financial statements,	See Memorandum, paragraphs 148-151.

R#	CATE-GORY	COMMENTS ON SMC 18	STAFF COMMENT
		thus distorting faithful representation and relevance of the financial statements.	
006	D	*Did not comment on this SMC.*	
007	A	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.	See Memorandum, paragraphs 148-151.
008	D	*Did not comment on this SMC.*	
009	A	It is appropriate to use same approach for derecognition as for initial recognition.	
010	D	*Did not comment on this SMC.*	
011	A	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.	See Memorandum, paragraphs 148-151.
012	A	Yes, in principle the same criteria should be applied. Exceptions are to be provided in the specific IPSAS.	
013	A	Yes.	
014	A	The CNOCP believes that the same criteria should be used for recognition and derecognition. This issue would nevertheless deserve further investigation.	Noted about need for further investigation.
015	A	In general we support the use of the same criteria for derecognition as for initial recognition.	See Memorandum, paragraphs 148-151.
016	D	*Did not comment on this SMC.*	
017	A	Yes.	
018	A	The Joint Accounting Bodies support the finalised Framework utilising the same criteria for derecognition as for recognition.	See Memorandum, paragraphs 148-151.
019	A	The Task Force supports the use of the same criteria for derecognition as for initial recognition, provided that this approach improves presentation and enhances usefulness of information for users of GPFSs.	See Memorandum, paragraphs 148-151.
020	B	We believe that it is necessary to establish separate criteria for derecognition. These criteria may be similar to the criteria for initial recognition, but we believe that they must be based on the existence of an event or transaction that results in the derecognition. Without a specific event or transaction to trigger derecognition, each element would need to be reviewed at each financial	Referred to in Memorandum, paragraph 150.

R#	CATE-GORY	COMMENTS ON SMC 18	STAFF COMMENT
		statement date to determine whether the criteria for recognition continue to be met.	
021	A	We support the use of the same criteria for derecognition as for recognition. We acknowledge that development of standards level guidance for complex transactions can be challenging but see no reason why there should be any difference between recognition and derecognition in the Framework.	See Memorandum, paragraphs 148-151.
022	C	Where there is recognition-there should be derecognition.	
023	A	We tentatively accept that the general derecognition criteria should be the obverse of the general recognition criteria as a working premise, with the proviso that derecognition requirements for specific financial statement items at the standards level may need to address some unique circumstances and may in application be different than the recognition criteria for a particular financial statement item. By agreeing, we reluctantly overcome our ingrained and comfortable tendency towards prudence regarding the derecognition of liabilities.	Noted reservations about the abandonment of prudence
024	A	We support using the same criteria for both.	See Memorandum, paragraphs 148-151.
025	A	The AASB supports the use of the same criteria for derecognition as for initial recognition. A corollary of the AASB's view that recognition criteria should be neutral (see comment above on Specific Matter for Comment 17) is that recognition criteria should apply equally to the initial recognition and subsequent recognition of an element. Derecognition is synonymous with treating an element as failing criteria for subsequent recognition.	See Memorandum, paragraphs 148-151.
026	A	The DGFiP considers that the same criteria have to apply both for initial recognition and for derecognition.	See Memorandum, paragraphs 148-151.
027	A	Yes.	
028	A	In our view, the same criteria should be used for derecognition as is used for initial recognition.	See Memorandum, paragraphs 148-151.
029	D	*Did not comment on this SMC.*	
030	A	For the same reason as IPSASB (stated in paragraph 6.25), HoTARAC supports the use of the same threshold for initial recognition and subsequent de-recognition of assets and liabilities, as this is consistent with the qualitative characteristic of faithful representation. Other comments:	Noted. Following completion of the Framework it is likely that extant IPSASs will be evaluated for consistency

R#	CATE-GORY	COMMENTS ON SMC 18	STAFF COMMENT
		It is recommended IPSASB, when reviewing IPSASs for consistency with its Framework, revisits the 'virtual certainty' test for contingent assets of IPSAS 19.	with the Framework on a structured timetable over a number of years. This process will likely consider the 'virtual certainty' test for recognition of contingent assets of IPSAS 19.
031	A	The criteria for derecognition should be the opposite of the requirements for recognition to ensure that accounting symmetry is achieved. This will ensure that the same assets and liabilities are not reflected on more than one government or entity's financial statements.	Need for symmetry noted.
032	D	*Did not comment on this SMC.*	
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	C	Yes, I think a neutral judgment approach will result in proper derecognition. We would support discussion surrounding derecognition of a liability and how the nature of the liability would impact one's professional assessment of when derecognition would be appropriate. Derecognition of an asset is somewhat different in that management has more control over when they no longer expect to receive benefit from an asset but there is less control over when a liability is no longer expected to be settled.	
035	D	*Did not comment on this SMC.*	

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) YES: INTEGRAL PART OF DEFINITIONS	**5 (18%)**
(B) NO: SEPARATE AND DISTINCT REQUIREMENTS	**20 (71%)**
(C) NO CLEAR VIEW EXPRESSED	**3 (11%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**28 (100%)**
(D) DID NOT COMMENT	**7**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 19	STAFF COMMENT
001	A	Ideally, ACAG believes that recognition criteria could be incorporated into element definitions. This would limit the location and extent of further rules and guidance as seen in many current accounting frameworks.	Referred to in Memorandum, paragraph 153.
002	B	In our view, it is important that the recognition criteria should be separate and distinct from the definitions of an element. The distinction is helpful in clarifying the rationale for including or excluding an item from the financial statements. For example, an item may not be recognised because there is no appropriate measurement basis but another similar item is newly-acquired and recognised at cost. If the definition of an asset contains recognition criteria, the first item would be an asset but not the second. This would be confusing.	See Memorandum, paragraphs 152-154
003	B	The recognition criteria should be a separate part of the element definitions.	See Memorandum, paragraphs 152-154
004	B	NAO is of the opinion that the recognition criteria have separate and distinct requirements from element definition. This helps to better distinguish between definition and recognition criteria.	See Memorandum, paragraphs 152-154
005	C	We feel that the conceptual framework should address the needs of General Purpose Financial Statements. To ensure a high quality framework, we encourage that elements should be defined specifically for the use by General Purpose Financial Statements to avoid misinterpretation and to make the framework easier to use. We do not recognize a value in defining elements that would not meet the recognition criteria for GPFS.	An item or transaction might meet the essential characteristics of an element but not meet recognition criteria.

R#	CATE-GORY	COMMENTS ON SMC 19	STAFF COMMENT
006	D	*Did not comment on this SMC.*	
007	B	NSW Treasury is of the view that recognition criteria should be separate and distinct requirements.	See Memorandum, paragraphs 152-154
008	D	*Did not comment on this SMC.*	
009	B	We incline towards the view that recognition criteria should be a included as separate and distinct requirements.	See Memorandum, paragraphs 152-154
010	D	*Did not comment on this SMC.*	
011	B	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.	See Memorandum, paragraphs 152-154
012	A	It should be an "*integral part*", because the advantages for the user predominate.	Referred to in Memorandum, paragraph 153.
013	B	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.	See Memorandum, paragraphs 152-154
014	A	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.	Referred to in Memorandum, paragraph 153.
015	B	In our opinion there should theoretically be a clear distinction between the definition of elements and the recognition criteria as separate issues. It follows that the recognition criteria have to be considered in a second step.	See Memorandum, paragraphs 152-154
016	D	*Did not comment on this SMC.*	
017	B	We consider that recognition is a distinct stage in the accounting process that takes place after considering whether an item meets the definition of an element.	See Memorandum, paragraphs 152-154
018	B	The Joint Accounting Bodies believe that the finalised Framework needs to be clear on the relationship of the recognition criteria to the element definitions. We consider it important that the element definitions are kept general and broad. Whether or not an element is recognised in the financial statements is, and should remain, a separate matter and be dependent on the element satisfying prescribed recognition criteria. The finalized Framework must be clear about this sequencing.	See Memorandum, paragraphs 152-154

R#	CATE-GORY	COMMENTS ON SMC 19	STAFF COMMENT
019	B	The position of the Task Force on this specific matter for comment is that definition should not incorporate recognition elements; however measurability attribute should be a part of recognition criteria. The rationale behind this approach is that an item or a transaction does not cease to exist because it does not meet recognition criteria for inclusion in the GPFSs, whereas if an item cannot be measured reliably, it should not be recognized in the GPFSs. Thus measurement attribute should be a part of the recognition criteria.	See Memorandum, paragraphs 152-154
020	A	As we have noted throughout our comments, we believe that recognition criteria must be considered and integrated into the definition of elements as they are integral to determining whether an element exists and the impact of that decision.	Referred to in Memorandum, paragraph 153.
021	B	We consider that recognition criteria should be separate and distinct requirements. Our comments on specific matters for comment 4 and 9 reflect our views on this matter.	See Memorandum, paragraphs 152-154
022	A	Recognition is integral to the definition of an element.	Referred to in Memorandum, paragraph 153.
023	B	The recognition criteria should not be an integral part of elements definitions. Instead, they should be separate and distinction requirements. This approach gives the building blocks of the financial statements (the elements) more clarity regarding their nature and substance. It also ensures that any expectation of the inflow or outflow of economic resources can be clearly expressed and described only in one place in the standards. Right now, there are examples in some sets of standards where it is not clear whether the degree of expectation expressed in the elements definitions is the same as that expressed in the recognition requirements, particularly when contingent assets and contingent liabilities are considered.	See Memorandum, paragraphs 152-154. Variation in approach in extant IPSASs acknowledged.
024	B	We think that one must first meet an element definition and then meet the recognition criteria. Each stage should be separate and distinct.	See Memorandum, paragraphs 152-154
025	B	The AASB considers that recognition criteria should be separate and distinct requirements from the definitions of the elements of financial statements. This is consistent with the AASB's response to Specific Matters for Comment 4 and 9.	See Memorandum, paragraphs 152-154
026	B	According to the DGFiP, the recognition criteria are distinct (from) elements.	
027	B	The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.	See Memorandum, paragraphs 152-154

R#	CATE-GORY	COMMENTS ON SMC 19	STAFF COMMENT
028	C	We do not have a strong view about whether recognition criteria should be an integral part of the element definitions.	
029	D	*Did not comment on this SMC.*	
030	B	HoTARAC's recommends the recognition criteria be separate and distinct from the element definition. This keeps the element definition at a high level and simpler to understand. Separate definitions are useful for preparers in providing a structure for the recognition of balance sheet items and is used currently in distinguishing contingencies from assets and liabilities.	Noted, although Staff also acknowledge the point made in paragraph 6.26 of the Consultation Paper that inclusion of recognition criteria in definitions enables preparers to locate all factors relevant to recognition of an item or transaction in one place.
031	B	See the response to SMC 17 above.	
032	D	*Did not comment on this SMC.*	
033	C	I think that initially the use characteristics identified depends of the IPSASB principally Exposure Draft 1 that is in discussion, which decisions about this point can be different than others comments.	
034	B	Nova Scotia feels the definition of the elements does not need to include the recognition criteria. The two concepts are closely linked so we do not feel one aspect of the framework can be completed in isolation but we do see them as separate issues.	See Memorandum, paragraphs 152-154
035	D	*Did not comment on this SMC.*	

OTHER COMMENTS

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENTS
016	***What type of benefits and obligations should assets and liabilities include?*** IPSAS paper discusses the definition of assets and liabilities from a resource view and discusses it from 3 different angles. 1. Recognition of assets/liabilities on the basis of matters only concerning the running operation of the entity 2. Recognition of assets/liabilities on the basis of matters also concerning state activities such as early retirement and pension obligations and the right to collect taxes 3. Rrecognition of assets/liabilities from a socio-economic perspective – the general registration framework which includes natural resources, sustainability and so on According to the Danish model, we only use cost based accounting in relation to the running operation of the entity. This is partly because the primary purpose of the cost based accounting is to support the ongoing financial management by compiling the resources needed for handling the entity's task. At the same time it is very important to us that the registration support the ability to maintain a tight appropriation control. In Denmark the early retirement obligations and pension obligations are not included in the financial statement, in the same way as the natural resources or assets and liabilities related to socio-economic activities are not included in the financial statement.	The treatment of retirement obligations and pension obligations is a standard-level issue. However, Staff is unclear why such obligations should not be recognized in the financial statements if they meet the essential characteristics of the definition of a liability and the recognition criteria. The Framework addresses concepts for general purpose financial reporting not cost or management accounting, although some of the principles established might be relevant for such purposes.
020	We recognise that this is a substantial project and that the IPSASB is working towards completion of a final Framework in May 2013. We encourage the IPSASB to leave open the possibility of issuing an ED of the full Framework once all the separate phases have reached ED stage.	Raised in Coordinator's Report at Agenda Item 4.1
023	For paragraph 2.1-last sentence. This sentence may have to be revised depending on the decision made regarding the definition of deferred inflows and outflows as elements.	Noted.
023	For paragraph 2.18(e). How can holding cash create net cash inflows – is this interest on the cash held?	Agree reference is confusing.

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023	For paragraph 2.30. Last sentence is confusing – maybe too many negatives?	Will consider wording in ED development.
023	For paragraph 2.39. Include assets held in right of the Crown? The rights associated with these should be enforceable – but not by contract.	Staff thinks that allusion to crown rights will be confusing to many readers unfamiliar with the concept of crown land.
023	For paragraph 3.26. Example in the middle of the paragraph is confusing.	Noted. Example in paragraph 3.26 related to road maintenance. Staff unsure why it is considered unclear.
023	For paragraph 4.8. Revenues recognized in the period in which they were intended to finance the related costs – is this association with costs really possible at the summary financial statement level for a national or sub-national government? For example, aren't taxes raised more generally than this?	Reservation noted and will be discussed with those who have implemented a revenue and expense-led approach.
023	For paragraph 4.21-2nd sentenc. Add a "should" That is, "Further, the principle that taxpayers should pay only…".	Noted
023	For paragraph 5.37-last senctenc. Change "would up" to "wound up".	Noted
025	For paragraph 2.51(a). The combination of 'right' and 'power' in this sentence is confusing. The AASB recommends that the IPSASB elaborates the distinction.	Noted, distinction to be considered as ED is developed.
025	For paragraph 2.53. The AASB suggests rewording the last sentence of paragraph 2.53 to say "as with any assets, they would be subject to recognition criteria to determine whether they are recognised in the financial statements" instead of saying that "these rights would still have measurement hurdles to overcome".	Noted
029	Definition of an Asset The province believes that the objective of government financial statements is accountability to the public for the resources made available to government and the uses to which those resources were put. Since accountability is entity specific, the accounting basis should reflect the accountability focus; in which case measurement values should be entity specific and historical as well as measured at entry point to account for that specific entity's resources provided and resources utilized; rather than market based for comparison of the jurisdiction's financial position with another jurisdiction. The province recognizes the value of a	

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<tr><th>R#</th><th>ISSUE RAISED BY RESPONDENT</th><th>STAFF COMMENTS</th></tr>
<tr><td></td><td>consistent set of accounting standards used by all jurisdictions which would facilitate comparison with other jurisdictions by those who wish to do so; but that is not the primary objective.
Further, if you accept that government has no capital and the appropriate asset valuation model is historic cost for accountability purposes, the issues raised in this section of the paper on the definition of an asset as an element are viewed from a different perspective. Attached, as Appendix B, is an expanded copy of the table in the Consultation Paper on Measurement of Assets and Liabilities in Financial Statements, which relates asset valuation models to both Capital and Capital Maintenance Concepts.</td><td></td></tr>
<tr><td>029</td><td>Appendix B
Table 1: Features of Measurement Bases
<table>
<tr><th>Capital Concept</th><th>Capital Maintenance Concept</th><th>Accounting for Capital Maintenance Adjustments</th><th>Measurement Basis</th><th>Historical or Current value?</th><th>Entry or Exit point of measurement?</th><th>Value is Market or Entity Specific?</th></tr>
<tr><td>None</td><td>None or not applicable</td><td>None</td><td>Historical Cost</td><td>Historical</td><td>Entry</td><td>Entity Specific</td></tr>
<tr><td>Financial Capital</td><td>Financial Capital Maintenance (Nominal Monetary Units)</td><td>Other Comprehensive Income (OCI)</td><td>Market Value</td><td>Current</td><td>May be either</td><td>Market</td></tr>
<tr><td>Financial Capital</td><td>Financial Capital Maintenance (Units of Constant purchasing power)</td><td>Change in Consumer Price Index to Capital; balance to OCI (Units of Constant purchasing power)</td><td>Market Value</td><td>Current</td><td>May be either</td><td>Market</td></tr>
<tr><td>Operating Physical Capacity</td><td>Physical Capital Maintenance</td><td>To Capital</td><td>Replacement Cost</td><td>Current</td><td>Entry</td><td>Entity Specific</td></tr>
</table></td><td>To be considered further in development of Phase 3</td></tr>
<tr><td>030</td><td>Australia has adopted a single set of accounting standards and framework applying to both the public and private sector that are based on IFRS. Therefore, HoTARAC proposes that IPSASS works closely with lASB in the development of the conceptual framework for public</td><td>Need for close working with IASB noted. Also noted that IASB is currently consulting on agenda and</td></tr>
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	sector with the aim of achieving, as far as possible, a uniform conceptual framework between the two bodies, with IPSASB considering the issues on their own merits from a public sector perspective. HoTARAC believes that having a single set of accounting standards for both private and public sectors allows comparability and consistency of financial reporting between the two sectors.	that reactivation of a number of phases of the Conceptual Framework project may result from that consultation.
030	***Inconsistent numbering and grouping*** Matters are numbered and grouped inconsistently. The sections on deferrals and equity are split, rather than being presented sequentially. Matters 12, 15 and 16 relate to equity; matters 11 and 14 relate to deferrals. HoTARAC also notes Specific Matter for Comment 2(b) is a restatement of 2(a)(iii), 'access to rights', with the addition of the concept of enforceability and these should be combined in the final Exposure Draft is released, and the final ED could be simplified by grouping and consolidating the Matters for Comment.	Staff accept that there was some overlap between Specific Matters for Comments in Framework-CP2.
030	***Comparison with GFS*** IPSAS states in the preamble that IPSASB is committed to convergence with GFS where appropriate, but a number of the matters are not compatible with GFS. It is recommended CF Phase 2 uses the same format as CF Phase 3 stating the relevant requirements of GFSM 2001 in the body of the eventual Exposure Draft.	Referred to in Memorandum, paragraph 10.
030	***Minor Errors*** There is an apparent error in paragraph 2.22. “should not hinge on whether payment has been made or whether, at the reporting date, the entity has a binding obligation to transfer resources in the future”. where "or" should read “but” Paragraph 2.36 paraphrases the 'Access to the Rights' approach as a 'right of access',which is fundamentally different from a right or access.	Noted