



**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](http://www.ifac.org)

## Agenda Item

# 2A

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**Date:** March 2, 2012  
**Memo to:** Members of the IPSASB  
**From:** Joy Keenan  
**Subject:** Key Characteristics of the Public Sector with Potential Implications for Financial Reporting – Discuss Issues

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### Objective

To **discuss** responses to the Exposure Draft (ED), *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* and **agree** an approach to further development of this document.

### Agenda Material

2A Covering Memo

2A.1 Collation of Responses to the ED

2A.2 Analyses of Composition of Respondents

A copy of the ED is included in this material for reference

Responses #1 – 38 are available at <http://www.ifac.org/publications-resources/key-characteristics-public-sector-potential-implications-financial-reporting>.

### Background

1. The IPSASB currently has a project to develop a public sector conceptual framework for financial reporting. The ED, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*, was developed to provide background on issues with potential impacts on the conceptual framework and standard setting for public sector entities.
2. The ED was not intended to provide more than an overview of the public sector. It highlights some of the main characteristics of the public sector that distinguish it from the for-profit private sector and have potential financial reporting implications. It was also intended to provide some public sector background for those with an interest in concepts, but limited knowledge of the public sector. As such, it was not intended to consider in detail specific financial reporting issues, but merely to identify them. It was also not intended to reach conclusions on how these characteristics affect

particular areas of the Framework. That analysis is the role of the individual substantive phases<sup>1</sup> of the Framework.

3. The ED was published in April 2011 with an August 31, 2011 response date. Because of staffing constraints, the responses to the ED were not considered at the December 2011 IPSASB meeting.
4. Thirty-eight responses were received to the ED. An analysis of the respondents by region, function and language is included at Agenda Item 2A.2. A collation of the responses, by Specific Matter for Comment (SMC) and section of the ED, is provided at Agenda Paper 2A.1. Staff has provided a classification of the responses to the SMCs.
5. The analysis of the responses in this memorandum highlights only the key issues<sup>2</sup> that staff considers were raised in the responses. In addition, a number of further comments were raised on the specific sections of the document. Proposed staff views on those issues are shown in Agenda Paper 2A.1. Staff proposes that these be addressed in this session on an exception basis (i.e., if the IPSASB Members should raise issues if they disagree with a staff view on issues addressed in Agenda Paper 2A.1 that are not addressed in this Agenda Paper as a key issue).
6. It is important to note that while some respondents identified some proposed changes to the key characteristics of the public sector, only those proposals that have potential implications for financial reporting were evaluated for amendment to the ED.

#### Action Required

Members are asked to **confirm** the staff view that the ED material should continue to be developed and **agree** on: the changes necessary to address respondents' comments (set out in the paragraphs that follow and in Agenda Paper 2A.1); and on how and where the material should be published.

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<sup>1</sup> The Project Brief for the IPSASB Conceptual Framework consists of three subject groups.

- Group 1 (also referred to as Phase 1) deals with the following concepts that apply to general purpose financial reports (GPFRs): the role, authority and scope; objectives and users; qualitative characteristics, and the reporting entity. CF—ED1 addressed this phase.
- Group 2 (also referred to as Phase 2) deals with the definition and recognition of elements of general purpose financial statements (GPFs) prepared on the accrual basis of accounting. CF—CP2 addressed this phase.
- Group 3 covers measurement (also referred to as Phase 3) and presentation and disclosure (also referred to as Phase 4).
  - Phase 3 is considering the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements. CF—CP3 addressed Phase 3.
  - Phase 4 explores concepts applicable to the presentation of information in the general purpose financial reports of public sector entities. It is not limited to the financial statements. CF—CP4 (currently available for comment) addresses Phase 4.

<sup>2</sup> Those comments staff does not consider to be key issues are nevertheless analyzed individually in Agenda Paper 2A.1.

## Analysis of Issues

### Overall Comments on the ED

7. As discussed further below in the analysis of Specific Matter for Comment (SMC 1) most respondents found the ED useful and supported its further development. Of the 38 respondents, 26 were in agreement with the document's usefulness and another four respondents partially agreed. However, a minority of respondents (four respondents) expressed significant reservations about the nature and purpose of the ED.
  - a. Respondent #33 summarized these reservations in arguing that the ED's purpose is unclear. This respondent expressed concerns that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework ("Framework") or link those characteristics to proposals in other IPSASB Framework consultation documents.
  - b. Respondents #22 and 37 expressed similar reservations.
  - c. Respondent #25's reservations were based on its inadequate analysis of the characteristics of constitutional structure and their importance from a conceptual perspective.
8. Respondents # 25 and 35 suggested that the ED should have been developed and issued prior to documents on the other phases of the Framework. Staff agrees with this view, but notes that the need for this document was identified when work on the first three phases was well advanced and that an earlier version of the ED was made available in December 2010 as a staff draft at the same time as the Phase 1 ED (CF—ED1), Phase 2 Consultation Paper, (CF—CP2), and Phase 3 Consultation Paper (CF—CP3) were issued. Respondent #29 recommended that IPSASB re-expose phase 1 of the Framework document to fully incorporate the impact of key characteristics identified in the ED. Staff does not think that anything in the paper or the responses necessitates such a re-exposure.
9. Several respondents reiterated concerns they had expressed in responding to previously issued comment documents. (i.e., CF—ED1, CF—CP2, CF—CP3), or commented on issues that were being addressed in the Framework (#4, 7, 9, 12, 13, 14, 21, 23, 25, 29, 31, 32, 33, 35, 36, 37), or in other IPSASB projects, such as service performance reporting (#23, 31), long-term fiscal sustainability (#22, 25, 28, 32), or financial statement discussion and analysis (#23). Many of these comments reiterated reservations on the "more comprehensive" scope of financial reporting that has been proposed in CF—ED1. A number of respondents also commented on Government Business Enterprises (GBEs) in relation to the reporting entity (#7, 13, 15, 23, 32, 36, 37). Some considered that the ED's comment that GBEs are in the public sector was at odds with the current position that GBEs are outside the scope of IPSASs. Some respondents commented on sector or transaction neutrality in developing standards (#1, 3, 7, 11, 12, 29, 33, 35), either strongly endorsing such standard-setting approaches or questioning their suitability for public sector standard setting. Staff acknowledges the forcefulness and clarity of these points. However, Staff does not consider this ED to be the appropriate place to address these issues, given its limited and primarily educational objective. Staff has noted these comments in Agenda Paper 2A.1.

## Specific Matter for Comment (SMC) 1

10. SMC 1 asked whether the document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting.
11. A large majority (26) of the respondents (#1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 28, 29, 30, 31, 32, 35, 37, 38) commented on the usefulness of the ED (SMC1) and supported its further development. A number of specific proposals were provided for improvement. They are addressed below by section of the ED.
12. The main concerns of those who did not think that the ED was useful or were lukewarm related to the ED's failure to specify the effects of the identified characteristics on the Framework (Respondents #13 and 33 as noted above). Respondent #23 deplored the fact that the document identified examples of transactions rather than fundamental properties, so that items like taxes appear under several headings (e.g., non-exchange transactions and regulatory role). Staff partially accepts the latter point, but did not consider the ED over-emphasized transactions. Respondent #25 criticized the ED for inadequately developing the characteristics of constitutional structure and its importance from a conceptual perspective. In Staff's view it is not feasible to analyze a variety of constitutional arrangements in a paper of this size. Respondent #34 expressed a view that a number of the characteristics are not attributable to non-governmental public sector entities. Staff understands this view and accepts that some of the characteristics, such as the regulatory role of government and statistical accounting primarily relate to central government or whole-of-government/general government sector reporting. While staff does not think that this means that they should be omitted it might be explained that the characteristics do not apply equally to all public sector entities in the Introduction.
13. The detailed responses to SMC1 are set out in Agenda Paper 2A.1

### Staff Conclusion:

14. There is overall support for the further development of the material. Staff recommends this work continue to be done in conjunction with the work on the four phases of the Framework to ensure the material in all documents is consistent.

### Question for the IPSASB:

Do you **agree** that the material in the ED should be further developed in conjunction with the Conceptual Framework?

## Specific Matter for Comment (SMC) 2

15. SMC 2 asked whether the document should be included as part of the IPSASB's literature and if so, where it should be located.
16. A large majority of respondents (28) supported including the material as part of the Framework (#3, 4, 5, 7, 8, 10, 11, 12, 13, 14, 16, 18, 19, 20, 21, 22, 23, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38). Of those who prefer the material to be published in the Framework, Respondent #3 considers the

full Framework along with the Key Characteristics, should be published in its entirety as an ED because of the interdependencies among the various parts of the Framework and the Key Characteristics ED. The IPSASB has decided to defer a decision on issuance of an integrated (or umbrella) ED until the Framework has been further progressed. Respondent #12 indicated it could be an introductory section of the Framework. Respondent #29 noted that the material in the ED is an important basis to develop and interpret the Framework and therefore would be best integrated into the specific Framework documents and the supporting Bases of Conclusions.

17. In addition several respondents indicated the material in the ED should be published elsewhere with some other status, either in addition to the Framework, or only elsewhere. The following comments were made:
  - a. Respondents #6 and 26 thought the material could be included in the Framework or published elsewhere. Respondent #26 noted that this depends on its authoritative status.
  - b. Respondents #18, 21, 23, 30, 32, and 33 indicated that the material should be published in the Framework and also be published elsewhere. Respondent #18 considers it should be an Appendix in the Framework and a “supplement” to the IPSAS Handbook. Respondents #21 and 23 suggest integrating relevant parts of the ED material into chapters of the Framework. Respondent #28 noted the material could also be part of the introductory IPSAS material. Respondent #30 specifically objected to a separate stand-alone document.
  - c. Respondent #8 considered that if the material is restructured, it could be part of the Framework; otherwise the material should be published outside authoritative literature (e.g., on the website).
  - d. Respondent #9 expressed a view against inclusion in the Framework, but indicated the material should support the Framework.
  - e. Respondent #1 considered that the material should be incorporated in the Preface rather than in the Framework. Respondent #9 considered it should be included with IPSASB literature.
18. There was no support for including the material as a separate section of the Handbook.

**Staff Conclusion:**

19. Staff recommends that, subject to actioning agreed changes, the ED be further developed so it is in a position to be published with the Framework. Changes suggested by the respondents to this ED, which the IPSASB supports (as discussed below and in Agenda Paper 2A.1), would be incorporated in the revised document and the Framework.
20. Given the objective of the ED (see paragraph 2 above), staff considers that the most appropriate means of highlighting public sector characteristics is to publish the material in its entirety as part of the Framework for the following reasons. First, some of the material within the ED is linked with specific parts of the Framework in addition to providing general background material. As such, it will be difficult to separate the ED material into these components without the risk of losing important material. Second, this approach preserves the logic in the ED. Finally, it does not preclude specific references to the ED material in relevant portions of the Framework to support particular issues.
21. Staff favors including the material as an appendix to the Framework. In order to clearly establish the boundary between the key characteristics and the material in the Framework chapters it should be made clear that it is not part of the Framework. Relevant details from the ED could also be in the Basis for Conclusions of relevant chapters of the Framework. This will mean that the ED will not be

finalized until the Framework is completed. If the IPSASB determines that all phases of the Framework will be issued as one ED, the revised Key Characteristics paper could also be included for comment.

22. Staff considers that this material was not developed for the same purpose as the Framework. Its purpose is to provide helpful background information about the public sector to inform users of the Framework. Staff is concerned that if the key characteristics material is included as an introduction to the Framework, it will create confusion as to the different nature of this material relative to its impact on financial reporting and standards development from that in the Framework.

**Question for the IPSASB:**

Do you **agree** that the material in the ED should be included in the Framework as an appendix but not as part of the Framework?

## Section 1: Introduction

23. A total of 17 respondents (#4, 5, 7, 9, 13, 14, 15, 18, 23, 24, 26, 28, 32, 33, 35, 36, 37) commented on various aspects of the Introduction. Their comments dealt mainly with the informal definition of the “public sector” and the inclusion of supranational organizations and GBEs.
24. The ED pointed out that GBEs are part of the public sector. It does not anticipate the conclusions of the IPSASB’s recently approved project on GBEs. Respondents #7, 15, 23, 32, 35 and 37 questioned whether GBEs should be identified as part of the public sector in light of their financial objective to realize profits or fully recover costs and the statement in the “Preface to International Public Sector Accounting Standards” that GBEs apply International Financial Reporting Standards (IFRS). Staff disagrees and considers that GBEs are part of the public sector, as broadly defined, regardless of the standards that govern their financial reporting.
25. Respondent #7 also noted that the private not-for-profit sector entities should be specifically excluded from the scope of the public sector. Paragraph 1.3 noted that the private not-for-profit sector shares many of the characteristics of the public sector, but explicitly stated that “the public sector does not include the private not-for-profit sector”.
26. Respondents #33 and #35 expressed opposing views on whether the public-private sector comparison adopted in the ED is useful. Respondent #33 considered that the key characteristics were over-emphasized and that many are also identifiable in the private sector. Conversely Respondent #35 felt that the focus on differences from the private sector conveyed a sense of defensiveness and, a lack of confidence that public sector accounting standards should exist on their own merits. In the view of this respondent “the public sector is fundamentally different than the private sector and is therefore not comparable with the private sector.” Staff considers that it is useful to discuss the nature of the public sector in and of itself; however, it is also useful to retain comparisons with the private sector as they may indicate areas where particular attention needs to be focused.

### Staff Conclusion:

27. Staff recommends that the definition of “public sector” in paragraph 1.3 be amended as follows (based on Preface, paragraph 12):

The term “the public sector” includes the following entities: national governments; supranational governments (e.g., the European Union); sub-national or regional governments (e.g., state, provincial, territorial); local governments (e.g., municipality, city, town) and their component entities (e.g., departments, agencies, boards, commissions, government business enterprises); single purpose entities (e.g. school boards or regional health authorities); regulatory bodies; and international organizations (e.g., the United Nations). The public sector does not include the private not-for-profit sector, although this sector shares many of the characteristics of the public sector.

28. Staff notes that the other existing references in the IPSASB Handbook to “public sector” may need to be amended to be consistent with the final definition of the public sector in this project.

### Question for the IPSASB:

Do you **agree** with the issues identified by staff and the staff proposals for this section?

## Section 2: The Volume and Financial Significance of Non-Exchange Transactions

29. Twenty respondents (#1, 2, 4, 5, 7, 9, 13, 14, 15, 18, 21, 22, 23, 26, 28, 31, 32, 33, 35, 36) commented on various aspects of this section of the ED.
30. The main comments, in staff’s view, related to:
- An inconsistency in use of the term “public sector” between paragraphs 1.3 and 2.3.  
Respondent #13 notes: “There is inconsistency within the exposure draft about whether the term ‘public sector’ encompasses only not-for-profit entities or whether it includes both for-profit and not-for-profit entities. Paragraph 1.3 states that “they (other public sector entities) may be profit seeking or have a financial objective to break even”. However, paragraph 2.3 notes that “the primary objective of public sector entities is to deliver goods and services and not to generate profits”.
  - The list of questions in paragraph 2.3
    - Respondent #4 disagreed with including item (a) in paragraph 2.3 (related to efficiency and effectiveness) because it exceeds the scope of financial reporting while respondent #7 argues in favor of the more comprehensive scope of financial reporting in the ED (which is based on that expressed in CF—ED1);
    - Respondent #5 suggests adding: “Was the entity’s ability to provide services greater or less than had been anticipated in its budget and work plan?”
    - Respondent #15 suggests adding: “Did part of the burden of paying for current services restrict expenditures for other specified uses (especially investment expenditures)?”
    - Respondent #22 suggests adding: “Are sufficient liquid assets available to meet current liabilities? Is the fiscal policy sustainable for future generations? Are revenue raising and expenditure strategies convergent with the policy goals of the entity, e.g. equity, income redistribution, social welfare, etc?”
    - Respondent #23 considered that private sector entities would also have to answer the questions in paragraph 2.3.

- vi. Respondent #33 considered many of the information needs identified in paragraph 2.3 would also concern the private sector. Staff views on the individual issues raised in this regard are set out in Agenda Paper 2A.1.
- c. Clarifying the discussion that non-exchange transactions are more prevalent in the public sector
  - i. Respondents #5 and 9 agreed with the ED assertion that the volume and significance of non-exchange transactions is greater in the public sector.
  - ii. Respondent #9 emphasized that decisions taken by public entities have a mandatory nature for citizens, which is a major distinction from the private sector which operates according to a contractual model on a voluntary basis.
  - iii. Respondent #9 noted that the term contractual in paragraph 2.6 is inappropriate, because it stipulates that transfers to entities that have limited or no capacity to raise taxation are of a quasi-contractual nature. This respondent noted that it would be more correct to say that the transfers represent “binding commitments”. Respondent 32 made a similar comment that: “The private sector differs from the public sector since it is based on a contract binding free counterparts.”
  - iv. Respondents #14 and 28 suggested a wording change in paragraph 2.8 for clarity: “Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not provided by other entities, e.g., welfare programs, or because it is not considered appropriate for them to be provided through competitive market mechanisms on public policy grounds, e.g., policing and defense.”
  - v. Respondent #21 considered the discussion in paragraph 2.8 to be too generalized.
  - vi. Respondent #23 expressed the view that private sector entities also engage in transactions in a non-market or a limited-market environment.
  - vii. Respondent #26 noted that public sector entities may also receive voluntary contributions (e.g., the United Nations).
  - viii. Respondent #28 suggested wording changes to paragraph 2.7 to add clarity: *“International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.”*
  - ix. Respondent #31 suggested additional considerations regarding non-exchange transactions that should be separately addressed as key characteristics:
    - The predominance of non-exchange transactions means that public sector standard setters must develop accounting standards for them.
    - The service provision (versus profit motive) of public sector entities has a number of potential implications for what is reported in financial statements and other financial reports – such as those set out in Exposure Draft paragraph 2.3.
    - The re-allocation of resources.
    - The provision of goods in a non-market or limited market environment probably should be identified separately as a key characteristic. Respondent #23 (see above) expressed a contrary view.
  - x. Respondent #36 suggests adding a description of the distinction between commercial and non-commercial transactions.



- d. Specific comments on issues which are discussed in depth in the Framework (e.g., information needs of users, the power to tax) or in the projects on service performance reporting or long-term fiscal sustainability.
  - i. Respondent #35 commented on user needs (which is addressed in CF—ED1) and non-exchange transactions (and referred to its comments on Framework comment drafts).
  - ii. Respondent #36 commented on asset valuation (which is addressed in CF—CP2)
- e. The appropriateness of the term “public good” (#1, 5, 14, 28, 36).
  - i. Respondents #1 and 5 contended that there is in fact a difference between public goods and social goods. Respondent #1 pointed out that although the opening sentence of paragraph 2.8 suggests that they are one and the same thing. While the consumption of public goods by one person does not reduce their availability of others (e.g. parks, defence and policing), the availability of social goods can be reduced as they are consumed by others, e.g. healthcare and education. Respondent #5 noted that some public goods have competing uses, where the consumption by one set of users can impair the consumption by another (e.g., national parks can be used for conservation, research or public recreation; however, if one of these uses is given clear priority, it will reduce the use for other purposes).
  - ii. Respondents # 14 and 28 noted that paragraph 2.8 of public goods uses a very specific meaning which is not used by all economists and so might be incorrectly seen as equating non-excludable or ‘pure’ public goods with public sector provision, without commenting on wider public goods such as breathable air.
  - iii. Respondent #36 suggested that the difference between (pure) public goods, goods for the provision of public services and market goods should be explained more prominently, because it is a key characteristic between the public and the private sector.

**Staff Conclusion:**

- 31. With respect to item 30a staff considers that while a GBE is profit seeking or has a financial objective of full cost recovery it is a public sector entity.
- 32. With respect to item 30b, staff will review the final list in this paragraph to ensure it is consistent with relevant material in Phase 1 of the Framework.
- 33. With respect to item 30b, staff proposes to amend the discussion of non-exchange transactions and provision of goods and services in a non-market environment. The amendments will consider voluntary and mandatory non-exchange transactions in the public and private sectors to draw out the public sector implications more clearly.
- 34. With respect to item 30c, staff has highlighted these issues for consideration in the Framework, as they go beyond the limited scope of this paper and look at specific implications for the Framework.
- 35. With respect to item 30d, staff agrees to consider the proper usage of the term “public good” to address respondents’ concerns noted above. Staff will do further research to determine what that usage should be.

### Section 3: The Importance of the Budget

36. Fourteen respondents (#5, 7, 9, 13, 14, 15, 18, 22, 23, 28, 32, 33, 35, 36) commented on various aspects of this section of the ED. The main comments, in staff's view, are listed in the following paragraphs.
37. The ED commented that the budget is important because it is publicly available and because it is necessary for accountability. Respondent #13 did not view the budget as an inherent characteristic of the public sector that "has implications for financial reporting" as it is a form of financial reporting itself. Staff disagrees with the respondent's comment on paragraph 3.1. The respondent also suggests that it is not the budget which is the characteristic, but the appropriations system (or its equivalent) of which the budget is simply a component. Staff considers that the budget is the key component of the appropriations system that enhances accountability.
38. Respondent #23 commented that the main qualitative characteristic (QC) of public sector financial statements is that they are prepared on the same basis as the budget. Staff notes it is important for accountability to compare actual results with the budgeted amount. The IPSASB has argued for greater convergence between financial reporting and budget accounting, but does not think that a process such as preparation of the financial statements on the same basis as the budget is a QC.
39. Respondent #33 challenged whether the budget is more important than the financial statements as stated in paragraph 3.2 of the ED and suggested that the budget is more 'prominent'. Staff considers that the statement in paragraph 3.2 is accurate, but agrees with the respondent that the prominence of the budget can be emphasized without comparing its importance to the financial statements, to which IPSASs apply.
40. Respondent #36 suggested changing the title of this section to "Role of the Budget". Staff considers this section, like section 2, to be one of comparison of approaches with the private sector, as both sectors prepare budgets and compare actual results with those budgets. Section 2 uses the term "Volume and Financial Significance" to compare with the private sector, while this section uses "Importance". Staff considers the ED heading to be appropriate to convey the comparison with the private sector for this characteristic.

#### Staff Conclusion:

41. Staff proposes amending paragraph 3.2 to remove the comparison of the prominence of the budget with the financial statements as follows:

3.2 In many jurisdictions the budget has a special legal significance and, historically, has been ~~more~~ very prominent ~~than the financial statements~~ in communicating with citizens.

42. Staff proposes redrafting the first sentence in paragraph 3.3 as follows in order to clarify the significance of the budget in the public sector as follows:

~~The budget is significant in the public sector because it information that helps allows users to assess actual spending revenues and expense against budget estimates and the resulting budgetary surplus or deficit for the reporting period against budget estimates, compared with that budgeted. This is important in determining~~ allows users to assess how well a public sector entity has met its financial objectives.

## Section 4: The Nature of Property, Plant, and Equipment

43. Ten respondents (#2, 5, 9, 14, 15, 18, 22, 23, 29, 33) commented on various aspects of this section of the ED. The main comments, in staff's view, are listed in the following paragraphs.
44. Respondent #18 noted that more detail and examples could be provided on the challenges of measurement and the determination of the useful lives of the assets and capitalization policy. Phase 3 of the Framework addresses measurement and staff does not think that it is necessary to go into detail on these issues in this paper.
45. Respondent #23 suggested the heading is misleading and that the key issue is whether the asset is held primarily for cash-generating purposes rather than its nature. In the view of this respondent the analysis should not be focused on property, plant and equipment. Staff notes that the discussion in paragraphs 4.1 and 4.2 was not specific to property, plant, and equipment. However, the title of the section may have suggested such an emphasis.
46. Respondent #29 agreed with the assertion in the ED that the primary reason for holding tangible capital assets is to deliver services to the public rather than to generate positive cash flows. In the view of this respondent this characteristic necessitates adoption of the historical cost measurement basis with limited application of any other measurement basis. Staff considers that there is a viable alternative view that the prevalence of non-cash-generating assets in the public sector is a rationale for adopting current measurement bases. However, in the view of staff these issues relate to Phase 3 of the Framework. They were discussed at the December 2011 IPSASB meeting and are beyond the scope of this ED.
47. Respondent #33 noted that this key characteristic is not specific to not-for-profit public sector entities and that a number of private sector entities such as construction companies, mining companies, manufacturers and utility operators also have a significant proportion of assets that are specialized and traded in limited markets. Staff acknowledges this point, but considers that a reliance on specialized assets is a feature of the public sector that requires particular consideration. This issue is being addressed in Phase 3 of the Framework.
48. Respondent #33 also pointed out that, for statistical convergence reasons or to meet regulatory requirements, public sector entities in some jurisdictions are required to regularly re-measure their property, plant and equipment and proposed that jurisdiction-specific regulatory requirements and other factors should not be emphasized in the IPSASB's Framework or related documents. The requirements of industry-specific regulators for the measurement of assets for regulatory information were discussed at the December 2011 IPSASB meeting in the context of establishing a measurement objective in Phase 3. However, they were not discussed in this ED. There is no intention to provide a comprehensive consideration of jurisdiction-specific regulatory factors in the Framework. Regulatory reporting is special-purpose rather than general-purpose reporting, and therefore outside the scope of the Framework.

### **Staff Conclusion:**

49. Staff proposes to change the heading of this section to "Nature and Purpose of Assets in the Public Sector" as it applies to other assets in addition to property, plant, and equipment. This is intended to

address the concern of Respondent #23 and to clearly indicate that it is the purpose of holding the asset that is important (as discussed in paragraph 4.1 of the ED).

## Section 5: Responsibility for National and Local Heritage

50. Eleven respondents (#1, 5, 7, 9, 14, 15, 23, 28, 32, 33, 37) commented on various aspects of this section of the ED. The main comments, in staff's view, are listed in the following paragraphs.
51. Respondent #7 asked for more detailed commentary on the issue of recognition. Respondent #9 asked that the ED discuss measurement in more detail. Respondent #14 also commented on the need for more commentary on the recognition and measurement of heritage assets. Respondent #32 noted that the ED should address the initial recognition of heritage assets. The issue of heritage assets is one of the most divisive and emotive in public sector financial reporting. IPSASB has a project on heritage assets that was deactivated in 2007. There has been some discussion of the measurement of heritage assets during deliberations on Phase 3 of the Framework. The staff view is that it is not appropriate to go into more detail on recognition and measurement issues in the ED.
52. Respondent #14 also commented that the ED focused on aspects of heritage assets which are important and relevant to government policy rather than financial reporting. Respondent #28 made similar comments. These respondents suggested additional characteristics which might influence financial reporting.
53. Respondent #23 did not consider the responsibility for national and local heritage to be an appropriate characteristic to make it a key issue, as it is based on "intent". The respondent noted that the important factor is that these assets are public or social assets. Staff considers treating heritage assets separately to be appropriate as they have different attributes from other classes of property, plant, and equipment, and intangible assets for reasons identified in IPSAS 17, *Property, Plant, and Equipment*, and IPSAS 31, *Intangible Assets*.
54. Respondent #33 noted that the second sentence of paragraph 5.1 does not acknowledge that private sector entities are often responsible for the protection and preservation of historical buildings they occupy. Staff accepts that private sector entities may control heritage assets that are subject to regulatory requirements, but considers that such responsibilities are of a different scale and nature to the public sector's responsibility for such assets.
55. Respondent #37 suggested that the ED should include some acknowledgement that, in some jurisdictions, state governments and other sub-national entities have responsibility for heritage assets and that the heading be modified to "Responsibility for Heritage", without specifying a level of government. Staff notes that the discussion in paragraphs 5.1 and 5.2 was not specific to national government, but accepts that it might have been perceived as disproportionately focused on the national level.

### Staff Conclusion:

56. Staff proposes to broaden the discussion and change the heading of this section to "Responsibility for Heritage".

57. Staff proposes to provide additional characteristics of heritage assets in paragraph 5.1 the ED similar to those identified by Respondents #14 and 28.
- Heritage assets are generally managed without primary regard to commercial return
  - Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.
  - Many heritage resources may not be sold in markets, or governments may wish to discourage sale.
  - Information on historical cost or current market value may not be available either in principle or at reasonable cost.

58. Staff proposes to amend paragraph 5.2:

There are issues concerning whether some or all such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.

## Section 6: Longevity of the Public Sector

59. Eleven respondents (#1, 5, 7, 9, 14, 15, 23, 28, 32, 33, 37) commented on various aspects of this section of the ED. The main comments, in staff's view, are listed in the following paragraphs.
60. Some respondents (#4, 9, 25, 28, 30, 32) commented on the scope of the Framework and the long-term fiscal sustainability project. Staff does not consider the following issues need to be addressed in this document as they are being considered elsewhere in the Framework and also in the long-term fiscal sustainability project.
- a. Respondent #9 reiterated the position expressed in the reply to CF—ED1 that the Framework should focus on accounting and should only apply to the financial statements, and not on financial information outside the financial statements.
  - b. Respondents #25, 30, and 32 expressed a similar view that guidance in areas beyond the financial statements should be left to the discretion of individual reporting jurisdictions which may have their own legislative and/or regulatory requirements in such reporting areas.
61. Respondent #18 noted that sustainability should be discussed further. Staff does not consider this necessary or appropriate in this ED.
62. Respondent #1 raised the following points:
- a. In order to strengthen the argument for the continued existence of governments, a sentence should be added between the last and penultimate sentence in paragraph 6.1 indicating that, it is usually political factors that threaten the existence of governments (and entities) rather than their financial viability.
  - b. Whether the reference to “sub-national” in the opening sentence is appropriate given that mergers and amalgamations may occur at any level of government and not just sub-national government.

63. Respondents raised the following issues regarding the going concern assumption:
- a. Respondents #9 and 23 did not consider that the going concern principle is relevant, because even if a public entity disappears its mission continues and is generally taken over by another entity.
  - b. Respondents #14 and 28 expressed the opposite view that, because of the longevity of governments and tax-raising powers, the going concern assumption is not given sufficient attention.
  - c. Respondent #21 indicated that a fuller discussion is needed about the appropriate application of the going concern assumption in a public sector context.
  - d. Respondent #32 considered that the longevity of public entities, as discussed in the ED, is an essential feature of public sector, whereas private sector entities are more likely to face going concern issues.
  - e. Respondent #33 noted that public sector entities with tax-raising powers might be more capable than other entities of generating sufficient cash inflows, but this does not justify the statement in the first sentence of paragraph 6.5 that going concern has generally been less relevant in the public sector than in the private sector. Staff accepts that this statement should be modified and replaced with a word like 'prominent'.

**Staff Conclusion:**

64. Staff proposes to change paragraph 6.1 to indicate it is usually external factors and not financial viability that affects a public sector entity's existence.
65. Staff proposes to revise the section to clarify that the going concern assumption is important for the public sector, but that, in the light of the longevity of governments and the existence of tax-raising powers, its interpretation can be complex and it may not be given sufficient attention.

**Section 7: The Regulatory Role of Government**

66. Fifteen respondents (#5, 9, 13, 14, 15, 18, 19, 23, 28, 31, 32, 33, 35, 37, 38) commented on various aspects of this section of the ED. The main comments are listed in the following paragraphs.
67. Respondent #13 was unclear what was meant in paragraph 7.2, by the statement: "the existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector." There is an allusion to the implications of the regulatory role for determination of the reporting boundary in the last sentence of paragraph 7.2. The ED refers to the regulatory role of government that has no private sector counterpart. From a public sector entity's point of view, this regulatory role can affect determination of control of an asset or an entity. Staff agrees that this explanation is vague and rather uninformative and that it should be clarified by reference to (i) the definition of an asset, which in some jurisdictions has involved notions of 'regulating access to benefits' and (ii) the potential for ambiguity as to whether regulatory powers allow a public sector entity to govern the financial and operating policies of a regulated entity.
68. Respondent #15 suggested: "Where the role of public regulation is underlined, also its redistribution function should be specified, as it may affect the assessment of results obtained within single government sectors or levels." Staff does not consider the "redistribution function" to be directly related to financial reporting. The issue of non-exchange transactions such as transfers is addressed in section 2 of the ED.

69. Respondent #23 questioned why government's regulatory role differs from the ability to tax addressed in section 2 of the ED. Staff considers that the general power and right to tax differs from regulatory powers, although regulatory powers can involve fines and licenses, which some might say are, in substance, taxes
70. Respondent #31 questioned why the regulatory role of government is one of the "powers, rights and responsibilities" deserves separate mention when other characteristics identified by the respondent do not. Two of the items the respondent noted (i.e., setting fiscal and monetary policy) do not affect financial reporting directly even though they may indeed be characteristics of the public sector. The others (i.e., tax; penalties and fines; the issuance of licenses and the enforcement of laws and regulations) are addressed in the ED.
71. Respondent #32 suggested the role of social intervention of public authorities should be added in this section. Staff does not consider this characteristic to directly affect financial reporting, although transactions related to social interventions are addressed in Section 2.
72. Respondents #35 and 37 raised the issue of the impact of government's regulatory role on control of an asset and control of an entity. Respondent #35 interpreted Section 7 as raising the possibility that government regulatory agencies might not be included in the government reporting entity. Staff is unclear how this interpretation could have arisen, but it may suggest a need to clarify that the implications for the reporting entity relate to potential ambiguity whether regulated entities should be within the reporting entity. Noting the extensive regulatory powers of government over many areas of a country's economy, Respondent # 37 commented that (i) the exercise of a government's regulatory power over assets operated by other entities may result in confusion in determining who has control of those assets, particularly where a rights-based approach to the definition of an asset is applied; and (ii) it is important to distinguish a government's right to economic benefits embodied in an asset (control of an asset) from the rights the government obtains through its regulatory role. Staff agrees with these comments and considers that some of this explanation might be useful, provided that this can be done without trespassing on the discussion of these issues in Phases 1 and 3 of the Framework.
73. Respondent #38 proposed wording changes to paragraph 7.1 in order to improve clarity.
74. Staff recommendations for changes to the ED to address specific comments raised by respondents are set out below.

**Staff Conclusion:**

75. Staff proposes to remove inconsistent use of terminology regarding the regulatory role of government in paragraphs 7.1 and 7.2, and to state the financial reporting implications more clearly. Staff notes that this was done in IPSAS 32, *Service Concession Arrangements*, because the impact of government's regulatory role on a private sector entity is different from the determination of control of an asset by a public sector entity.
76. Staff proposes to amend paragraph 7.1 using similar wording to that suggested by respondent #38: Regulatory intervention also occurs where there are market imperfections or market failure for particular goods or services, and where the total costs of particular transactions and activities are not transmitted



through pricing and may therefore be borne by those other than the parties to particular transactions (e.g., the producers or consumers). Examples include taxation of toxic/hazardous waste byproducts, environmental pollution/degradation, and unwholesome or unsafe products (e.g., nicotine and alcohol) which cause illnesses, injuries, and remediation costs to both transactors and to third parties).

## Section 8: Ownership or Control of Rights to Natural Resources and Phenomena

77. Eleven respondents (#2, 5, 9, 15, 19, 23, 25, 32, 37, 38) commented on this section of the ED. The main comments, in staff's view, are listed in the following paragraphs.
78. Respondents #9 and 15 expressed a view that such rights are assets. Respondent #9 referred to its response to CF—CP2. It is not the purpose of this ED to conclude whether such rights are assets. Respondents #19 and 38 proposed an elaboration of the description of "electromagnetic spectrum". Staff found this material informative, but, on balance, does not consider that such a level of detail is necessary to exemplify the point made in paragraph 8.1 of the ED.
79. Respondent #23 did not understand the distinction between this section and the regulatory role of government. Respondents #25, 32, and 37 reiterated comments made on previous Framework documents on whether these rights are assets.
80. Staff considers that the issues discussed in Sections 7 and 8 are different in that the implications of the ownership or control of rights to natural resources and other phenomena relate to whether these rights potentially give rise to assets of a public sector entity. The issue regarding regulation is primarily related to the scope of financial reporting, determination of the reporting entity, and definition of an asset.

### Staff Conclusion:

81. Staff does not propose changes to paragraph 8.1 of the ED.

## Section 9: Statistical Bases of Accounting

82. Fourteen respondents (#2, 5, 9, 13, 14, 17, 18, 21, 22, 23, 27, 28, 35, 37) commented on various aspects of this section of the ED. The main comments are listed in the following paragraphs.
83. Respondent #2 suggested additional detail to be added about the requirements of statistical accounting. Staff does not consider that additional material is necessary to explain the financial reporting implications of statistical bases of accounting. The recently initiated project, "The Alignment of IPSASs and Public Sector Statistical Reporting Guidance" (referred to as the statistical alignment project) will provide a detailed analysis of the issues.
84. Respondents #5, 9, and 18 agreed with inclusion of this section as a key characteristic. Respondent #37 noted that a minority of its members disagreed that it is a key characteristic of the public sector. Respondent #35 noted that, although, as a sub-national entity, it cooperated with the national government in supplying information, under the System of National Accounts, for the International Monetary Fund, this did not imply accountability to a supranational body. This respondent acknowledged that it is good financial management to develop accounting systems that provide information for different purposes, but considered that all reporting under statistical bases is special purpose accounting and should not in any way influence the development of accounting standards for



the financial statements. Staff notes these points, but considers that the respondent has drawn unintended conclusions from this section.

85. Respondent #37 noted that statistical information is also collected for the private sector. Staff acknowledges this, but notes that a crucial distinction with the private sector is that the private sector does not report on a statistical basis.
86. Respondent #37 also noted that at an individual public sector entity level, the statistical basis of accounting is irrelevant, given that its purpose relates only to macro-economic analysis at a general government sector or whole- of-government level and the statistical basis of accounting should only be considered once it has been determined that a different disclosure, presentation, recognition or measurement requirement is appropriate for the public sector. Staff considers this issue to be related to the current IPSASB statistical alignment project.
87. Respondent #13 did not view the statistical bases of accounting as a “characteristic” itself, but, rather considers it is the form of accounting adopted in response to certain underlying characteristics that are referred to in Section 9. The respondent proposed that the key characteristics are the importance of macro-economic analysis and the need for statistical information organized into the four sub-sectors mentioned in paragraph 9.2: Staff notes these points, but considers them dependent on the provision of information compiled using statistical bases of accounting.

**Staff Conclusion:**

88. Staff concludes that there is overall support for the section. Staff considers that the discussion can be clarified and proposes to redraft paragraphs 9.1 and 9.2 as follows, based on the comments of Respondent #14:

- 9.1 Reporting under statistical bases of accounting is important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.
- 9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically sub-divided into four subsectors: central government, state government, local government and social security funds. Unlike whole-of-government IPSAS-compliant financial statements, where entities at sub-national levels of government are consolidated when central government has the ability to direct their financial and

operating policies, the boundary of the GGS is not dependent upon the relationship between central and sub-national government units.

### Other Comments

89. Staff views on the other comments raised are not discussed here because the issues are disparate in nature and many of these respondents did not raise specific issues that should be addressed in this paper (i.e., they do not relate to impacts on financial reporting). Staff views are included in Agenda Paper 2 A.1 under “Other Comments” at the end of the document.

## STAFF COLLATION OF RESPONSES TO EXPOSURE DRAFT, KEY CHARACTERISTICS OF PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING

### Purpose:

To present the Staff summary of the comments received on Exposure Draft (ED), Key Characteristics of Public Sector with Potential Implications for Financial Reporting

*(Note: This collation includes only key extracts of each response received to the ED. 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	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
002	Dr. Joseph S. Maresca	USA	Academic
003	Joint Accounting Bodies	Australia	Member or Regional Body
004	Ministry of Finance Quebec	Canada	Preparer
005	KPMG IFRG Limited	UK	Accountancy Firm
006	Cours des Comptes	France	Audit Office
007	Danish Agency for Governmental Management	Denmark	Preparer
008	Government of Canada	Canada	Preparer
009	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
010	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
011	HM Treasury	UK	Preparer
012	The Institute of Chartered Accountants in English and Wales(ICAEW)	UK	Member or Regional Body
013	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
014	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
015	Corte dei Conti	Italy	Audit Office
016	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
017	Department of Finance and Deregulation	Australia	Preparer
018	Felicitas T Irungu	Kenya	Other: Accountant

Response #	Respondent Name	Country	Function
019	Association of Government Accountants	USA	Other: national professional body
020	Grant Thornton UK LLP	UK	Accountancy Firm
021	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
022	The International Consortium on Governmental Financial Management (ICGFM)	Supranational	Other
023	Prof. Michael E. Bradbury(Massey University)	New Zealand	Academic
024	Prof. Martin Dees (Nyenrode University)	Netherlands	Academic
025	Provincial Government of Newfoundland and Labrador	Canada	Preparer
026	United Nations Systems	Supranational	Preparer
027	Frank Walker	USA	Other: Accountant
028	Federation of European Accountants (FEE)	Supranational	Member or Regional Body
029	Ministry of Finance of Ontario	Canada	Preparer
030	Ministry of Finance of Saskatchewan	Canada	Preparer
031	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body
032	Direction Générale des Finances Publiques	France	Preparer
033	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
034	Comptroller's Division of Manitoba	Canada	Preparer
035	Province of British Columbia	Canada	Preparer
036	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/Standards Advisory Body
037	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
038	Association of Government Accountants	USA	Other: national professional body

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R#	GENERAL COMMENTS	STAFF COMMENT
005	<p><i>Summary comments</i></p> <p>We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') entitled <i>Key Characteristics of the Public Sector with potential implications for financial reporting</i>, dated April 2011. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.</p> <p>We recognise that the Public Sector has a number of specific characteristics that set it apart from other sectors (e.g. commercial entities or not-for-profit organisations); these characteristics can give rise to assets and liabilities that are very different from those in other sectors. We therefore welcome this ED, which should be a fundamental part of the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> ('the Conceptual Framework').</p> <p>We acknowledge the need to approach the development of the Conceptual Framework, including the Key Characteristics, in phases as is the current approach being undertaken by the Board. However, we do not consider that the final result should be separate documents, one for each individual phase of the Framework and an additional Key Characteristics standard. Instead, we consider that a single Conceptual Framework document, incorporating the complete Framework and Key Characteristics, should be issued. The Framework is a single project and a single standard will make this clearer and easier for preparers and users to understand how the different aspects relate with each other and form part of the whole. In order to accomplish this, we recognise that later phases of the Board's joint framework project may need to include amendments to those parts of the Framework completed in previous phases.</p> <p>We consider that the relationships between the concepts addressed in each phase of the Framework, including this Key Characteristics document, are sufficiently interdependent such that an opportunity to provide commentary on the whole Framework should be provided once all phases are tentatively completed. We therefore consider that the complete Framework should be exposed in proposal form for public comment prior to issuance in a final standard.</p> <p>While supportive of the draft, we have considered the specific matters for comments in the ED and also have some comments on specific issues addressed in the ED.</p>	<p>Overall support for the documents usefulness noted, as is view that document should be part of the finalized Framework.</p> <p>View that Framework should be issued as one document is noted.</p> <p>View that ED of complete document should be issued is noted. Issue was discussed by IPSASB in September 2011. It was agreed that a decision on whether an integrated (umbrella) ED should be issued would be deferred until the Conceptual Framework project is further advanced.</p>
006	<p>In France, accounting for non-trading public sector entities is governed by rules and standards which are generally similar to those applied by the private sector, with some differences depending on the sector:</p> <ul style="list-style-type: none"> <li>- Article 47-2 of the French Constitution, as amended further to the latest constitutional review dated 21 July 2008, provides that "<i>the accounts of public administrations shall be lawful and faithful. They shall provide a true and fair view of the</i></li> </ul>	<p>Approach to public sector entities and social security system noted.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p><i>result of the management, assets and financial situation of the said public administrations“;</i></p> <ul style="list-style-type: none"> <li>- For national government, the principle laid down in the organic law relative to the laws of finance is that the rules related to the private sector shall apply “<i>subject to the specific features of government action</i>”;</li> </ul> <p>Social security bodies apply a chart of accounts whose rules only depart from those of the General Accounting Chart (applicable to companies which</p> <ul style="list-style-type: none"> <li>- are not subject to the IFRS) if specific legislative and regulatory measures provide otherwise;</li> <li>- Territorial authorities apply a chart of accounts inspired by the General Accounting Chart, while retaining certain specific features relative to budgetary constraints.</li> </ul> <p>Accordingly, given this framework, there is a need to pinpoint the key characteristics of these entities which may lead to the adaptation of accounting rules applicable to companies. The IPSAS Board Exposure Draft is instrumental in this respect.</p> <p><b>The key characteristics identified by the IPSAS Board</b></p> <p>As stated by the IPSAS Board in its Exposure Draft, public sector entities, including national governments, have broad powers, while being characterised by a large variety of legal organisation schemes throughout the world.</p> <p>The IPSAS Board has identified the following key characteristics for public sector entities:</p> <ul style="list-style-type: none"> <li>- The volume and financial significance of non-exchange transactions, including fiscal and social contributions, non-exchange transfers and the provision of goods and services in a non-market or limited market environment;</li> <li>- The importance of the budget;</li> <li>- The nature of property, plant and equipment held by public entities;</li> <li>- Responsibility for the protection and preservation of the national and local heritage, including certain natural areas;</li> <li>- The longevity of the public sector;</li> <li>- The regulatory role of Government;</li> <li>- Ownership or control of rights to natural resources and phenomena (e.g.: water, the electromagnetic spectrum) which enable governments to grant licences;</li> <li>- The importance of national accounting (statistical bases of accounting).</li> </ul> <p><b>Additional characteristics</b></p> <p>The key characteristics identified by the IPSAS Board are appropriate. Two additions could be made to these characteristics.</p> <p>First and foremost, the importance of national accounting in the public sector requires the</p>	<p>Two additional characteristics suggested.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>appropriate convergence with financial accounting, without necessarily meaning that the two can converge entirely, since both systems pursue distinct objectives. Accordingly, these objectives should be explained in more detail in the Exposure Draft.</p> <p>Secondly, the key characteristics identified by the IPSAS Board call for some reflection as to the form in which financial statements are presented by public sector entities and, more specifically, the statement of financial performance (or revenue statement), the statement of financial position (or balance sheet) and the notes to the financial statements.</p> <p>Regarding the statement of financial position, IPSAS 1 “<i>Presentation of financial statements</i>” prescribes the “specific” form of the statement of financial position for public sector entities, where assets and liabilities are presented in “blocks” and the net position is presented separately. In France, the government’s statement of financial position is presented in this form, which offers the advantage of reflecting the purely arithmetic nature of the net position.</p> <p>However, regarding the statement of financial performance, IPSAS 1 fails to take account of all of the implications of the key characteristics presented in the Exposure Draft. Indeed, the scope of non-exchange transactions largely blurs the link between revenue and expenditure, while in corporate accounting, this link is absolutely fundamental. In France, the government’s statement of financial performance takes these implications into account, since, unlike corporate financial performance statements, it is presented in three distinct “blocks” (1- Net State tax and fines revenue, 2– Net expenditure, 3- Balance of transactions for reporting periods).</p> <p>Finally, given these characteristics, more detailed notes than those generally used by companies should be prescribed, more specifically to take account of the “longevity of the public sector”.</p> <p>These additions should be made to the Exposure Draft, the substance of which nonetheless meets with the approval of the French Court of Auditors.</p>	<p>Paragraph 9.3 of the ED noted that of IPSAS and statistical bases of accounting have different objectives. Staff agrees that paragraph 9.3 of the ED should be modified so that it explains what these objectives are: at a high level IPSAS-compliant accounting deals with the reporting entity while statistical bases of accounting adopt a macro perspective. It is also noted that the purpose of reporting under statistical bases of accounting was briefly summarized in paragraph 9.1.</p> <p>Point noted. Following completion of the Framework IPSAS 1 will be revisited. Staff acknowledges that the significance of non-exchange transactions may have presentational consequences, but is not clear why “the scope of non-exchange transactions largely blurs the link between revenue and expenditure” and will follow this up with the respondent.</p> <p>Staff notes this view. In recent years standard setters globally have faced growing criticisms over the increasing numbers of disclosures leading to information overload and have advocated that there should be clearer principles governing disclosures.</p>
007	The Danish Government Accounts Council agrees that the document – in general -	Overall support for the ED noted.



R#	GENERAL COMMENTS	STAFF COMMENT
	provides basic background information to the key characteristics of the public sector and is a useful tool in the overall setup of the accounting standard of the public sector.	
009	<p>The CNOCP (the “Council”) welcomes the publication of the Exposure Draft on the Key Characteristics of the Public Sector (the “Exposure Draft”), which complements the first three documents on the Conceptual Framework for Public Sector Entities published by the IPSAS Board. Therefore, this document has to be read in the light of our answers to those previous papers.</p> <p>As the Exposure Draft follows on from the three previous documents on the Conceptual Framework for Public Sector Entities, it naturally raises the question of its status and place. The Council feels that the Exposure Draft is intended to identify and clarify the specific characteristics of the public sector for non-specialists. Consequently, in the Council’s opinion, the Exposure Draft should not be reproduced in full in the Conceptual Framework itself. Nevertheless, because it provides a very relevant description of the specific characteristics of the public sector, the Council would like the IPSAS Board to draw out all the accounting implications of these elements, both in the Conceptual Framework and in the standards as a whole (question 2).</p> <p>With regard to the contents of the Exposure Draft, the Council would prefer the purpose of the public sector to appear directly in the introduction. Clearly, the fundamental objective of the public sector in defining and implementing public policy in the exercise of its sovereign powers without systematically seeking profitability is the main characteristic of public entities.</p> <p>The Council is pleased to note that the main characteristics of public sector entities with accounting consequences are described (question 1): the scope of the entities with these characteristics, the non-market nature of certain transactions, funding through taxation, the existence of specialized assets and the fact that the missions of the public sector are of a long term nature.</p> <p>The specific point of the content of the financial statements of public entities and the way the latter link to budget and statistical documents is also dealt with and the Council agrees with the characteristics mentioned.</p> <p>The Council is very keen for further thought to be put into this aspect of the specific characteristics of the public sector and encourages the IPSAS Board to go further in this direction in particular on the basis of the results of the Exposure Draft for developing the Conceptual Framework.</p>	<p>Overall support for ED noted</p> <p>Noted view that should be integrated into Framework.</p> <p>Noted. Staff agrees that the objective of delivering goods and services rather than the generation of profits should be brought forward in the text. Staff is wary about over-emphasizing sovereign powers because such powers only accrue to national governments and not to all public sector entities.</p>
011	We understand that the exposure draft has been released as part of the wider project to develop a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. We support the role that a Conceptual Framework plays in setting financial reporting standards and recognise the considerable work undertaken by IPSASB and its various stakeholders in developing the framework.	Overall support for the ED. Support for sector neutrality noted. Staff note that others oppose or are lukewarm about sector neutrality and that transaction neutrality is a term sometimes used to denote support for the same or similar

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>The ED provides a comprehensive overview of the Key Characteristics of the Public Sector with Implications for Financial Reporting. As is correctly observed, characteristics of the public sector such as the widespread prevalence of non-exchange transactions, the crucial role of the budget, and the government's regulatory role raise a number of implications for financial reporting. Understanding these implications is crucial if general purpose financial reports are to allow users to make a wide range of decisions and to hold reporting entities and those charged with governance to account.</p> <p>As you may know, central government in the UK has used generally accepted accounting practice since 2000, and transition was made to IFRS for the 2009-10 financial year. Our rationale for adopting independently set standards is to instill financial discipline in our stewardship, accountability and performance reporting. The reason we have based our financial reporting standards on those used by the private sector is the need to demonstrate the public sector's use of its share of what is a single economy. For this reason, while we recognise that there are key characteristics of the public sector that have implications for financial reporting and support the IPSASB's development of a conceptual framework, we maintain that financial reporting standards should be as sector neutral as possible.</p>	<p>transactions being dealt with in the same way regardless of the economic sector in which the reporting entity is located (e.g., Respondent 29)</p>
012	<p>We agree that specific attributes of the public sector are relevant for financial reporting purposes</p> <p>We welcome this ED and the contribution it makes to providing a coherent framework for financial reporting by the public sector. We agree that there are a number of factors differentiating the public from the private sector that may have implications for financial reporting and that it is useful to take these into account in drawing-up a conceptual framework for the public sector. The much more widespread use of non-exchange transactions, the role of the budget and the regulatory capacity of government are all areas where the public sector differs from the private sector. It is important that the implications of these differences are acknowledged such that general purpose financial statements prepared by public sector organisations are effective in enhancing transparency and meeting the information needs of service recipients and resource providers.</p> <p>It is important that financial reporting standards remain sector neutral</p> <p>However, while we support the inclusion of these differences in the IPSASB's conceptual framework we are slightly concerned that their recognition and categorisation could result in future financial reporting standards becoming inappropriately sector specific. General purpose financial statements, a key function of which is to allow comparisons to be drawn between different organisations, rely upon a body of standards that are modified as little as possible for application by entities in different sectors or regions. Comparability is impaired where standards become sector specific and in our opinion they should remain neutral where possible. Therefore, while we support the definition of public sector</p>	<p>Support for sector neutrality noted and caution against sector specificity noted. See also Respondent 11.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	characteristics for the purposes of establishing the concepts that underpin financial reporting by the public sector, we do believe that careful consideration should be given to ensuring that these factors, once established, do not lead to greater sector specificity in the development of future standards.	
013	<p>While ACAG strongly supports the development of a statement on key characteristics of the public sector and the related implications, we have significant reservations about the exposure draft in its present form.</p> <p>ACAG is strongly of the view that the development of public sector financial reporting standards should proceed on the basis of what is most appropriate for the public sector and draw on the best available sources without favouring any particular pre-existing approach. Therefore, we are primarily concerned with the emphasis placed upon the statistical bases of accounting (GFS) at paragraphs 9.1 – 9.3 of the exposure draft and an earlier stated intention by the IPSASB to minimise divergence from GFS where appropriate.</p> <p>As noted at paragraphs 9.1 – 9.2 the statistical bases of accounting are aimed at macro-economic analysis and the GFS system is designed to support fiscal analysis. Therefore, reports prepared on this basis best serve a particular user group. We have seen no compelling arguments for favouring GFS when developing standards for public sector general purpose financial reports intended to satisfy the needs of a broad range of users.</p> <p>On the other hand, an argument can be made in respect of many governments that their participation in global financial markets, the size and nature of their public sector corporations engaged in commercial activities and the government's own involvement in significant private sector projects both directly and indirectly (via guarantees for example) mean that many users of financial reports would increasingly expect the financial performance and financial position of those governments to be measured in a manner consistent with the private sector.</p> <p>This is not to advocate a preference for IFRS but merely to demonstrate that an argument can be mounted for favouring both GFS and IFRS, and that is without considering possible approaches to not-for-profit accounting that may also suit the public sector.</p> <p>Expressing a preference for one pre-existing accounting approach over another sub-ordinates the standard setting development process and increases the likelihood of sub-optimal outcomes. ACAG have a strong preference for a neutral stance on the issue allowing alternative approaches to be judged on their merits in the particular circumstances.</p>	<p>Overall support for the ED, but strong reservations in certain areas noted.</p> <p>Staff notes the concerns with respect to GFS, but does not consider that these references are over-emphasized.</p> <p>The IPSASB has recently initiated a project on the alignment of IPSAS and Public Sector Statistical Reporting, which reflects the importance that the IPSASB attaches to this area. Paragraph 9.3 indicated that the two systems have different objectives and that full convergence may not be feasible. An earlier draft also included the words 'nor desirable', but they were deleted.</p> <p>Staff does not think that the choice is to follow GFS or IFRS. All approaches must be considered in the context of user objectives, user needs and the qualitative characteristics.</p>
014	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. CIPFA particularly welcomes the continuing development of IPSASB's conceptual framework for public	<p>Overall support for the ED.</p> <p>Detailed suggestions for improvement</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters.</p> <p>We are conscious that the IPSASB Conceptual Framework discussions may be seen as rather specialised discussions between technical experts, and less accessible to interested stakeholders with less technical background, or without a history of conceptual discussion of public sector aspects of financial reporting. A document based on the ED could be very helpful for stakeholders who are new to public sector standard setting discussions, especially when combined with the more technical and authoritative material in the emerging draft conceptual framework for public sector financial reporting.</p> <p>In order to fulfil this role, we envisage such a document being</p> <ul style="list-style-type: none"> <li>- as clear as possible, having regard to the fact that potential readers of the document may not use English as a first language</li> <li>- as short and concise as possible, while recognising that sufficient coverage has to be given to relevant public sector issues, and that these need to be clearly explained</li> <li>- useful because it discusses public sector arrangements which occur in many jurisdictions, while avoiding suggesting that arrangements are universal where they are not</li> </ul> <p>In the light of the preceding points, we would note our view that the Exposure Draft is well drafted and the broad direction of the material is excellent. However, in order to maximise the usefulness of the document, it is important that it is of very high quality. In our view further development will be required to produce a document which achieves the right balance between clarity, conciseness and sufficiency of coverage. In particular, rather than providing a statement of key public sector characteristics, there may be too much use of 'compare and contrast' drafting style. This adds to the length but may not significantly add to the substance of the document.</p> <p>In line with the above, we attach as an Annex some suggested amendments which we hope the Board will consider in taking this document forward.</p> <p>We also suggest that it is important that IPSASB should more clearly demonstrate that the material is sufficiently general to apply to a wide range of jurisdictions. While we followed the logic of all the discussions, we had some concerns that this might be because they share the regulatory context of 'western' mixed economies or social market economies.</p>	<p>of the final material (see response) will be taken into account in further development of ED.</p> <p>Staff notes the point that the ED may focus too much on "mixed or social market" economies. In general". Staff does not think that the ED is over-focused on such economies. However, Section 7 on the Regulatory Role of Government might include a reference that a regulatory role is a particular characteristic of government in mixed market economies.</p>
019	<p>On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its April 29, 2011 exposure draft entitled <i>Key Characteristics of the Public Sector with Potential Implications for Financial Reporting</i>. This exposure draft highlights certain characteristics of the public sector that may have implications for the development of a conceptual framework and accounting standard setting.</p>	<p>Overall support for the ED noted.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	The FMSB support the concepts and positions stated by the IPSASB in this exposure draft and we support the inclusion of this document in the Conceptual Framework. Our answers to the two matters posed by the IPSASB for specific comment follow. We also have two suggestions for your document that should help to clarify certain matters.	
021	<p>In our view, the IPSASB has drafted a much needed description of key public sector specifics that will help the wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.</p> <p>Information about where and how certain public sector specific features and circumstances potentially impact general purpose financial reporting (GPFR) will be very helpful to the IPSASB in its future standard setting activities and will also serve as a point of reference for those preparing financial reports when they face issues not previously addressed by standards, etc. In our opinion, this exposure draft provides some essential information relevant to public sector specifics – although, as we explain in the Appendix to this letter, it is not yet sufficiently detailed – which is highly relevant to financial reporting and could usefully be incorporated into the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.</p>	Strong overall support for the ED noted.
026	We support the IPSASB efforts in developing the Conceptual Framework, which establishes parameters for financial reporting under IPSAS and clarifies concepts not previously explicitly covered by the Standards. The Exposure Draft highlights certain characteristics of the public sector that may have an impact on development of a conceptual framework for the public sector and, therefore, on accounting standard-setting in the public sector. We note that the Conceptual Framework focuses on preparation and presentation of the General Purpose Financial Reports (GPFRs) of public sector entities, whereas the Standards deal with General Purpose Financial Statements (GPFSS).	Overall support for the ED noted. IPSASB has recently issued publications relating to the more comprehensive scope of financial reporting in areas outside the financial statements such as service performance and long-term fiscal sustainability.
028	<p>We strongly support IPSASB's programme which combines IFRS converged IPSASs, public sector specific IPSASs and conceptual work and the aim to achieve the balance between maintaining comparability and addressing sector specific issues.</p> <p>This draft document helpfully provides scene setting for current IPSAS and the agenda which IPSASB is supporting with the public sector conceptual framework.</p>	Overall support for the ED noted.
029	In June 2011, we provided our responses to other related documents integral to the development of the IPSASB's conceptual framework. Key issues raised in those responses highlight and reinforce the concerns we have identified in this response. The scope of the conceptual framework should be limited to general purpose financial statements (GPFS) and should reflect the nature of the public sector, ensuring that the needs of primary users are met. In this regard, Ontario does not support a sector neutral approach to developing accounting standards (i.e. based on private sector standards) for the public sector.	<p>As indicated the respondent has previously expressed strong opposition to a conceptual framework that goes beyond the financial statements in its response to CF—ED1.</p> <p>The opposition to sector-neutral standards contrasts with those of some</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>As stated in our previous responses to IPSASB's various conceptual framework documents, it is important that the conceptual framework and accounting standards for the public sector acknowledge and reflect the public's expectations for transparency and accountability reporting by the government. This is fundamentally different from what a shareholder or a lender would expect of a commercial enterprise and is why a sector neutral approach is not appropriate in the context of establishing public sector accounting standards.</p> <p>Public sector general purpose financial statements are viewed by the public as a key element of the accountability reporting cycle. The importance of the Budget as described in section 3 of the Exposure Draft is critical, yet appears to be virtually ignored in section 2.3 of the Exposure Draft which describes matters of interest to users of public sector financial reports. This critical point needs to be further assessed and addressed within the conceptual framework.</p> <p>This Exposure Draft provides useful identification and background on key characteristics of the public sector and identifies some potential implications of those key characteristics for general purpose financial reporting. However, the fundamental objectives of public sector accountability reporting should be based on the key characteristics of the public sector which is not adequately reflected in the IPSASB's related conceptual framework documents exposed in December 2010. It is recommended that IPSASB re-expose phase 1 of the conceptual framework document to fully incorporate the impact of key characteristics of the public sector, and incorporate these additional considerations in the development of Exposure Drafts for phase 2 and 3 of the framework.</p> <p>In addition, IPSASB's suggestion that public sector financial reports might provide users with information to assess value for money (per section 2.3) may create an expectation gap. Specifically, the Exposure Draft suggests that users may be relying upon financial statements to assess whether the entity has provided its services in an efficient and effective manner. However, the nature and extent of performance related information on efficiency and effectiveness of government services is not a consideration that is typically associated with government financial statement reporting. The information contained in historical financial statements is not generally considered the appropriate tool for users to assess efficiency and effectiveness of policy decisions. While some jurisdictions may provide performance related information in their annual reports, such information is not standardized and/or more likely to be provided to the public through different means.</p> <p>The Province of Ontario believes that the scope for accounting standards should be focused only on supporting general purpose financial statements that meet the informational needs of the public for historical financial information. In Canada, general purpose financial statements are a cornerstone in achieving effective accountability reporting to the public on the use of taxpayer money. A single conceptual framework would not be able to effectively support all the varying objectives of general purpose</p>	<p>other respondents (e.g., Respondents # 11 and 12).</p> <p>Staff considers that the comments on the importance of the budget emphasize the need for convergence of budget accounting approaches and those used for the financial statements.</p> <p>CF—ED1 included "Compliance with Budget" in its discussion of "Information Provided in General Purpose Financial Reports".</p> <p>Staff does not think that there is any compelling reason why CF—ED1 should be re-exposed because of attributes identified in the Key Characteristics ED. The points raised in paragraph 2.3 were all encompassed within the discussion in CF—ED1.</p> <p>While it was suggested that users of public sector financial reports might need service performance information the ED did not suggest that this should be published with the financial statements.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>financial reporting as currently suggested by the IPSASB conceptual framework documents, without compromising on the guidance for high quality general purpose financial statements.</p> <p>While user needs of government financial reports may go beyond the GPFS and include non-financial and prospective information, the over-riding purpose served by the GPFS in the public sector is to allow the public (and the legislature acting on their behalf) to gauge performance against the Budget. In Ontario, future-oriented financial information is provided through the government's Budget document which is generally prepared on the same basis as the government's historical financial statements to enhance transparency and accountability of reporting. However, this is not necessarily the situation in all jurisdictions. As governments are sovereign, the Exposure Draft should note that governments retain their sovereign right and decision-making authority on the budgeting and/or financial reporting basis that best meet the public's need for information. This would support broader acceptance of IPSASB by governments.</p>	
029	<p>However, there is a need to emphasize the over-riding key role that general purpose financial statements play in the accountability reporting cycle in the public sector. In addition, Ontario has significant concerns relating to the proposed expansion of the scope of accounting standards beyond standards for general purpose financial statements (historical-cost based financial statements). The broad scope as suggested by the Exposure Draft would dilute the value of the conceptual framework and relevance of public sector financial reports in meeting user needs.</p> <p>Ontario acknowledges that users of public sector financial reports may benefit from information beyond the historical cost based financial statements; however, given the diverse delivery of services, most users look for information from other sources than the GPFS on specific government activities such as program reporting. GPFS prepared based on standards set by authoritative accounting standard setting authorities should not be expected to meet this subgroup of users' needs.</p> <p>To the extent that information on particular activities or transactions needs to be provided on an alternate basis of measurement to meet users' performance or service related information needs, such information would not typically be provided through general purpose financial statements. For example, historical cost is appropriate in GPFS as it supports the accountability measurement for use of funds in the cash flow statement and depreciation based on historical costs to allocate the consumption of the asset investment for delivery of services. However, asset management reporting may need information on replacement cost or some other basis that would not be appropriate in the audited financial statements. User needs, as it relates to program reporting, can be very specific to a jurisdiction or type of program. IPSASB should allow each jurisdiction to determine specific user needs and produce relevant non-financial, performance and forward-looking reporting in accordance with government's own accountability framework. Being</p>	<p>CF—ED1 acknowledged that some information necessary for accountability and decision-making purposes may also be provided by reports other than GPFSs.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>sovereign, all governments would reserve the right on when and how to provide public reporting on programs that best meets public accountability reporting objectives. For example, in addition to summary financial statements, Ontario issues other key fiscal documents including the budget, mid-year economic statement, and detailed schedule of payments to provide to the public and other users with information on government activities. Governments must weigh the cost of producing public reports with the number of users looking for particular information. This is something that can change over time and in nature based on evolving needs or specific events.</p>	
031	<p>Thank you for the opportunity to provide input on the proposals in this Exposure Draft. We would like to express our support for the concepts set out in the Exposure Draft, although we do raise some issues for the consideration of the IPSASB below.</p> <p>Responses to the Specific Matters for Comment are set out in Appendix A to this letter. In particular we draw your attention to our response to Specific Matter for Comment 2, where we advocate that these characteristics be integrated into the Conceptual Framework and their accounting and reporting implications explicitly set out, with links to existing accounting standards (guidance) and financial reporting requirements as appropriate.</p>	<p>Overall support for the ED noted.</p>
032	<p>Given the specific and essentially non-merchant characteristics of sovereign missions of the public sector and its role as a economic and social regulator, some of its assets and liabilities have specific features with no equivalent in the private sector. These features imply consequences on accounting rules, in particular concerning the measurement rules and the nature of the disclosures set out in the notes to the financial statements.</p> <p>Therefore, the use of market value to evaluate assets and liabilities of the public sector seems not to be relevant in most cases and requires adapted measurement methods, by example using replacement cost approach for the measurement of some infrastructures. In addition, the longevity nature of the public sector missions makes rather difficult to collect the purchase value of assets, particularly historic and cultural assets.</p> <p>The notion of non-exchange transaction in public sector should be understood as the lack of counterpart in the monetary form, since there is an indirect and non monetary counterpart at inception of public policies (for example in fields such as education, health, security).</p> <p>As a consequence, and since this is key to elaborate the conceptual framework, the DGFIP considers that these fundamental characteristics should be outlined in the ED introduction. As a matter of fact, this reminder would make it easier to appreciate the fundamentally specific nature of public sector accounting rules.</p> <p>The DGFIP considers that the document should have been discussed before the issue of the three IPSAS Board documents relative to the project on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, in order to ensure some consistency in the consultation.</p>	<p>No clear view on usefulness.</p> <p>Market value and replacement cost have been discussed in detail in Phase 3 of the Framework.</p> <p>Staff agrees with the view that the Key Characteristics ED should have preceded the Phase 1-3 Consultation Papers. However, the need for this document was only identified after work on Phases 1-3 was well advanced.</p>



R#	GENERAL COMMENTS	STAFF COMMENT
033	<p>The AASB's comments are provided in the context of its fundamental view (expressed in its recent submissions on other IPSASB Conceptual Framework consultation documents) that the IPSASB and IASB Conceptual Frameworks should be complementary, where any differences are limited to those necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. Therefore, it would be important to explain why any of the key characteristics warrants a difference between the Frameworks.</p> <p>The AASB is concerned that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework or link those characteristics to proposals in other IPSASB Conceptual Framework consultation documents. Therefore, the ED's purpose is unclear. If the key characteristics were not fully meshed with the draft Conceptual Framework, there is a risk that some of them might become, in substance, alternative concepts used in the development of IPSASs.</p> <p>The AASB also notes that a number of the key characteristics are not unique to the public sector. Examples of these characteristics are discussed in Appendices A and B to this submission.</p>	<p>No clear view on usefulness.</p> <p>Staff notes that the respondent favors sector-neutrality. Staff has urged the IASB to reactivate the Conceptual Framework project. However, the IPSASB Framework project is not an interpretation of the private sector Framework.</p> <p>The purpose of the document was to identify characteristics that may have an impact on the Framework and standard-setting rather than to definitively conclude that they do have an impact. The Bases for Conclusions of individual phases will indicate where these characteristics have affected proposals/finalized sections.</p>
035	<p>The Objectives of the Key Characteristics Exposure Draft raises a question of whether it should be part of IPSASB's Conceptual Framework, as a consequence, the Province has a particular interest in the development of this Exposure Draft.</p> <p>In response to the two specific matters you have requested comment upon; the Province believes that the current Exposure Draft provides essential foundation material for the development of IPSASB's Conceptual Framework and that it should form part of the Conceptual Framework. The province has some concerns regarding the current Exposure Draft that were not subject to specific requests for comment; these concerns are set out in Appendix A to this letter. The Province believes that the Exposure Draft should only be included in IPSASB's Conceptual Framework after addressing the issues set out in Appendix A.</p> <p>The Province appreciates the efforts of IPSASB to complete its Conceptual Framework as quickly as possible and therefore understands why an Exposure Draft covering phase 1 and the Consolation Papers covering phases 2 and 3 have been issued.</p> <p>However, given the fundamental issues raised in regard to the current Exposure Draft it would have been better if the issues addressed in Appendix A to this letter had been resolved prior to issuing documents covering phases 1 through 3. The Province also believes that its previous submissions covering the Conceptual Framework Exposure Draft and the two Consultation Papers (phases 1 through 3 of the conceptual framework</p>	<p>Overall support for the ED noted.</p> <p>Staff agrees with the view that the Key Characteristics ED should have preceded the Phase 1-3 Consultation Papers. However, the need for this document was only identified after work on Phases 1-3 was well advanced.</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	project) should be read in conjunction with this submission.	
037	<p><b>Purpose of Document</b></p> <p>The objective of the Exposure Draft (ED) is stated as:</p> <p>“This Exposure Draft (ED), <i>Key Characteristics of the Public Sector with Potential Implications for Financial Reporting</i>, has been developed by the IPSASB as part of its project on the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework). The ED highlights certain characteristics of the public sector that may have implications for the development of a conceptual framework for the public sector and therefore on accounting standard setting in the public sector.”</p> <p>However, HoTARAC is concerned that the purpose and context for the ED and the relationship with the Conceptual Framework is unclear. That is, the link between the characteristics outlined in this document and the exposure draft and consultation papers issued by the IPSASB as part of the Conceptual Framework project is not sufficiently explained in the document.</p> <p>In HoTARAC’s view, a list of key characteristics of the public sector, while of general interest, is of no real value unless the consequences of the characteristics on financial reporting and the Conceptual Framework are addressed. This should include examining the implications of the key characteristics on transactions and user information needs. HoTARAC does not believe that this has been done sufficiently.</p>	<p>Staff agrees that greater clarity of the links to phases of the Framework are required. However, the purpose of the document was to identify characteristics that may have an impact on the Framework and standard-setting rather than to definitively conclude that they do have an impact. The Bases for Conclusions of individual phases will indicate where these characteristics have affected proposals/finalized sections of the Framework.</p>
037	<p><b>Financial Reporting Implications</b></p> <p>As mentioned above, HoTARAC recommends the document amplifies discussion of the financial reporting implications of the key characteristics and provides a rigorous reasoning regarding the potential impact on the development of a public sector accounting conceptual framework. Relevant links to the Conceptual Framework would be very useful and informative about the rationale for particular elements being dealt with differently in the framework. This should include a discussion of how, and in what circumstances the accounting/reporting arrangements should differ from the corresponding arrangements applicable in the private sector and the rationale for them being included in the public sector framework.</p> <p>HoTARAC suggests that at the end of each key characteristic a section titled ‘Financial Reporting Implication’ be included to clearly state the impact on the Conceptual Framework, with a link to the relevant section(s) in the framework documents.</p>	<p>See above.</p>
037	<p><b>“Significance” as an IPSASB criterion</b></p> <p>The ED indicates that at times public sector transactions are similar to the private sector, and that the concepts are probably the same, although the characteristics of the public sector may give rise to conceptual differences (paragraph 1.5). In HoTARAC’s view this needs to be more clearly explained, as many of the characteristics identified in the ED are</p>	<p>Staff does not agree that prevalence of transactions necessarily gives rise to a different accounting treatment. It may, however, suggest the IPSASB needs to consider whether unique public</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	<p>not unique to the public sector, but are still relevant because they are more significant or prevalent in the public sector (for example, non-exchange transactions).</p> <p>In HoTARAC's view, significance or prevalence may give rise to different treatments compared to the private sector, but only where it can be demonstrated that it is necessary to ensure that user needs are met, while considering the balance between costs and benefits. This underlies the Australian Accounting Standards Board/ Financial Reporting Standard Board of the New Zealand Institute of Chartered Accountants <i>Process for Modifying IFRSs for PBE/NFP</i>.</p> <p>HoTARAC recommends the IPSASB clearly indicates that, due to the public sector characteristics, certain accounting issues, even if these are also encountered for private sector reporting, create special challenges for public sector entities reporting and would require additional or different guidance for the public sector to ensure that faithful representation, understandability and comparability qualitative characteristics are met.</p>	<p>sector issues require a public sector specific treatment.</p>
037	<p>In addition to public sector specific issues, the IPSASB's focus should be to provide accounting pronouncement/guidance on transactions that are more significant or prevalent to the public sector where this provides more important information for public sector reporting users than for private sector and hence would meet public sector users need. For example, private sector transactions also includes non-exchange transactions, such as charity donations, but not to the scale that public sector entities do. Non-exchange revenue in a government's report is material and provides critical information to the users as to whether the government will be able to achieve its objective. Given this importance it is appropriate that, as it currently does, IPSASB provides guidance on non exchange transactions.</p> <p>Subject to balancing costs and benefits, specifically targeting these types of transaction will ensure consistency of accounting treatment to assist accountability/decision making and comparability. Below are some examples of such matters:</p> <ul style="list-style-type: none"> <li>• Funding sources – taxation and other non-exchange transfers;</li> <li>• The importance of Government budgets;</li> <li>• Specialised Assets;</li> <li>• The lack of markets;</li> <li>• Longevity of public sector entities and programs (i.e. going concern less significant for the public sector, whereas long term sustainability report more critical);</li> <li>• Government subsidies;</li> <li>• Government regulatory power. and</li> <li>• Statistical accounting</li> </ul>	<p>Certain of the items listed by the respondent are already addressed in the ED. The need for specific projects is addressed in the IPSASB's project planning process.</p>
037	<p>A minority of HoTARAC members considered that statistical accounting was not a public sector key characteristic, further details on this matter are outlined in 'Other Comments'</p>	<p>Staff considers that the significance of statistical accounting in the public</p>

R#	GENERAL COMMENTS	STAFF COMMENT
	below.	sector is a very important issue.

**SMC 1: Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

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

(A) AGREE (#1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 28, 29, 30, 31, 32, 35, 37, 38)	26
(B) PARTIALLY AGREE (#, 21, 22, 26, 36)	4
(C) DISAGREE (#13, 23, 25, 33)	4
(D) NO CLEAR VIEW EXPRESSED (#2, 34)	2
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>	<b>36</b>
(E) DID NOT COMMENT (#24, 27)	2
<b>TOTAL</b>	<b>38</b>

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
001	A	We welcome the opportunity to provide comments on the Paper on <i>Key Characteristics of the Public Sector with Potential Implications for Financial Reporting</i> . Overall, we are supportive of the Paper and believe that it is an extremely useful tool which can be used by readers with both a financial and non-financial background, to familiarize themselves with the main issues affecting financial reporting in the public sector. We have outlined comment on the detail of the document in the Annexure to this letter.	
002	D	The member believes that conceptual formulation would provide more useful information because the matter would be identified as an accounting principle. Handbooks tend to get discarded. In addition, conceptual formulation should be described fully to all students of accounting in current texts on the subject.  Public Sector Financial Reporting serves government established legal requirements. 1.2/pp.5 Generally, government and municipal accounting tends to be grounded firmly in statute or <i>stare decisis</i> which is a creature of the Courts which interpret law.  The government makes decisions on the distribution of scarce resources. 1.4/ pp. 5 Generally, budgets are formulated periodically which set forth how scarce resources are to be expended for the public benefit.	
003	A	Financial reporting by the public sector in Australia has been based on the conceptual framework (CF) and accounting standards issued by the Australian Accounting Standards Board (AASB) for some years now. The CF and accounting standards are IASB's Framework for the Preparation and Presentation of Financial Statements and the International Financial Reporting Standards (IFRS) with additional text to deal with the limited cases where there is a need to have additional or different requirements for public sector entities. Australia's regime of standard setting has been based on the principle of transaction neutrality, which means that wherever possible transactions should be accounted for the same way. Exceptions are only made where the circumstances of the public sector and not-for profit sector require them.	Support for transaction neutrality noted. Staff notes that transaction neutrality and sector neutrality are not the same concepts. Staff continues to monitor the IASB Framework project.

R#	CATE- GORY	COMMENTS ON SMC 1	STAFF COMMENT
		<p>One example is AASB 102 – Inventories, where “Aus” paragraphs were inserted to ensure inventories held for distribution by public sector entities are measured at cost adjusted when applicable for any loss of service potential (instead of net realisable value). In addition, to ensure the specific reporting needs of the public sector are met, the AASB have issued additional standards, including AASB 1004 – Contributions, AASB 1049 – Whole of Governments and General Government Sector Financial Reporting, AASB 1050 – Administered Items, AASB 1051- Land Under Roads and AASB 1052 – Disaggregated Disclosures.</p> <p>The characteristics of the Australian public sector are much like those articulated in the ED. We agree the ED provides useful background information on key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting. As supporters of transaction neutrality we would continue to encourage the IPSASB to liaise closely with the architects of the IASB/FASB CF to ensure a sufficiently broad accounting framework whose language can accommodate the key characteristics and reporting needs of the public and private sectors. We consider the ED can be used to further that approach.</p>	
004	A	We agree and, in our view, it is essential that these items be addressed in IPSASB literature.	Comment on in SMC2 noted.
005	A	Whilst we have a number of comments on specific issues, raised later in this letter, we consider that the document does provide useful background information. However, it only gives a brief overview of the key characteristics. This is perhaps unavoidable, as a comprehensive discussion would require “a book”, and we do believe that the relative brevity of the discussion does not detract from the value of the document; however, this should be acknowledged in the introduction.	The Introduction did state that the paper provided a general overview and that it was not intended to provide an exhaustive listing of all the areas in which the public sector could be distinguished from the private sector.
006	A	The French Court of Auditors considers that the IPSAS Board Exposure Draft provides useful background information on the key characteristics of the public sector. The potential implications of these characteristics should be included in the IPSAS Conceptual Framework which is currently being drafted.	Comment on in SMC2 noted.
007	A	As mentioned above we generally agree to the statement - that the document provides useful background information on the key characteristics of the public sector and secondly that it identifies some potential implications of those key characteristics for financial reporting!	
008	A	We agree that the document provides useful background information on the key characteristics of the public sector. However, we feel that the link to potential implications of those key characteristics on financial reporting is not clear. The commentary is very high level and generic. Furthermore, as we noted in our responses to the documents for comment issued earlier this year on the conceptual framework, we believe that the scope of this ED goes beyond financial statements and we have concerns with IPSASB introducing characteristics related to other financial reports. In particular, we feel that incorporating the prospective financial information described in Section 6 and the statistical bases of accounting described in Section 9	<p>Reservations over scope of financial reporting have been previously referred to in responses to other CF documents issued for comment.</p> <p>Staff is aware of PS1100 and</p>

R#	CATE- GORY	COMMENTS ON SMC 1	STAFF COMMENT
		introduces concepts that go well beyond the scope of financial statement reporting. The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants discusses unique characteristics of the public sector and directly links the characteristics to the financial reporting requirements within its standards. We feel that this format, outlined in section PS1100 Financial Statement Objectives provides a clearer link between the unique characteristics of the public sector and the financial reporting implications. We suggest that the IPSASB consider the format of the Canadian standard as it finalizes its conceptual framework.	will reconsider its contents.
009	A	The Council welcomes the publication of the Exposure Draft on the Key Characteristics of the Public Sector. The Council agrees that the public sector has distinctive characteristics with implications for financial reporting which differentiate it from the private sector and that the primary distinction is to be non-profit seeking. In our opinion, the Exposure Draft makes the main points on the key characteristics of the public sector. We would however be in favour of certain changes or additional comments that are set out below in the section “Specific Comments”.	
010	A	We do agree that the exposure draft has provided beneficial background on the characteristics of the public sector that may have implication for the development of a conceptual framework for public sector entities.	
011	A	We agree that the document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting. As the document itself indicates, it is not intended to be an exhaustive list of all the areas in which the public sector can be distinguished from the private sector. Rather, it rightly focuses on key areas of importance, and also highlights the fact that users of financial reports of public sector entities have broader information needs than users of financial reports of private sector entities.	
012	A	We agree. The ED provides a useful summary of some key considerations that are of particular significance to the public sector. As such it provides a useful focus for the conceptual framework and facilitates a better understanding of what general purpose financial statements in the public sector are intended to achieve. We appreciate that the ED is not intended to be an exhaustive list of all of the areas where the public sector is distinct and we do not believe that generally there is any need to make it more extensive. However, it may useful to include a consideration of the boundary of the public sector in the context of alternative arrangements to deliver public services (ie. they could be provided directly by government or by a private sector provider). There are also connected issues relating to the control model of consolidation and how this is defined in a public sector context.	The issue of control is being considered in CF Phase 1, noting that currently the term is not being used in the context of the reporting boundary.
013	C	ACAG is of the view that the exposure draft, in its current form, provides limited useful background information on the key characteristics of the public sector. In what follows immediately below, we have summarised the suggested modifications. More detail appears later.	Staff agrees that the term “public sector” should be further developed.

R#	CATE- GORY	COMMENTS ON SMC 1	STAFF COMMENT
		<ul style="list-style-type: none"> <li>We consider the “Introduction” section requires a more detailed description and discussion of the term “public sector” in order to provide a firm foundation for what follows in the exposure draft.</li> <li>There is no clear identification of what the public sector characteristics are (but we assume they are the items appearing at paragraph 1.6 and could be headed as such).</li> <li>Due to the deficiencies in the opening section (as mentioned above) there is no clear rationale for how the “list” at paragraph 1.6 was derived.</li> <li>We consider that two items on the (assumed) list – the budget and the statistical bases of accounting – are not characteristics having implications for financial reporting but are, in fact, financial reporting methods themselves which have emerged in response to underlying characteristics, as discussed later.</li> <li>As there is no clear rationale it is not possible to judge the completeness of the (assumed) list of characteristics.</li> <li>We consider the (assumed) list of characteristics is incomplete for the reasons set out later.</li> <li>As expressed in our covering letter, we are concerned with the emphasis placed upon the statistical bases of accounting (GFS) for reasons explained there.</li> </ul>	Re: GFS comment – The intent of the ED was to highlight that the statistical basis of accounting is significant in the public sector and that the IPSASB needs to be aware of statistical reporting requirements in setting standards for specific issues. It is not intended to emphasize the GFS over the financial statements.
014	A	We agree that the document provides useful information on the key characteristics of the public sector which are relevant in financial reporting discussions, and that it also identifies some potential implications for financial reporting, and provides a background against which other implications can be considered and discussed.	
015	A	<p>The draft paper makes an important contribution to identifying the key characteristics of the public sector world wide by substantially following a handbook approach. It can be further enriched by also considering common basic principles arising from concepts actually adopted in the different countries which may have a bearing on the assessment and the comparability of results by public entities at all levels of government.</p> <p>Comments by respondents could contribute to integrate the paper along the lines suggested above. The following comments are accordingly made by drawing from the Italian experience.</p>	
016	A	<p>I agree and considering very important this proposal about the key characteristics for financial reporting of public sector with implications for financial reporting as part of project of the IPSASB. I think that as described Kearney and Benedict as follows, the principal points of the conceptual framework are the accordance with accounting standards and manage activities and operations properly.</p> <p>So, I think that is very important to described and make definitions for integrated and relationship more the functions of government with relationship in the jurisdictions and laws of countries around the world, the experience of regulators for government is fundamental for</p>	Respondent notes the importance of regulators in implementing IPSASs in particular jurisdictions.



R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		process of implementation of IPSASB.	
017	A	The Australian Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft <i>Key Characteristics of the Public Sector with Potential Implications for Financial Reporting</i> ("the ED").  Specifically, Finance strongly supports the view that a key characteristic of public sector entities, in particular, at national level is the significance of government to economic management. As a consequence, the financial reporting implication relates to the consideration of statistical reporting in developing the IPSASB's Conceptual Framework.	Staff notes the importance attached to statistical reporting.
018	A	I <b>agree</b> the document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting.	
019	A	We agree that the document provides useful background information on the key characteristics of the public sector and that the document provides useful information that will assist in the financial standard setting process.	
020	A	We agree that the document provides useful background on the characteristics of the public sector.	
021	B	In order to identify potential implications for financial reporting certain parts of the exposure draft would benefit from a fuller discussion, as there are additional aspects of certain areas that may also have significant implications for financial reporting.	Specific comments identified in comments on individual sections. Staff notes that the purpose of the document was to provide an overview not a detailed discussion.
022	B	We do agree but would encourage the following be considered...	Specific comments identified in comments on Sections.
023	C	I think the weakness of this document is that it has identified examples of transactions rather than fundamental properties. Hence, items like taxes appear under several headings (e.g., non-exchange transactions and regulatory role).  I summarise what I think are the main fundamental properties underlying the document: <i>Primary</i> Reporting objective: as a basis for determining revenue ( <i>ex ante</i> ) versus stewardship reporting ( <i>ex post</i> ). Intergenerational reporting: Non-financial reporting: Public good (or social) assets: <i>Secondary</i>	Staff notes that there are various ways in which the characteristics could be presented. A number of respondents considered that the ED should start with the statement that one of the main objectives of public sector entities is to deliver goods and services and not to generate profits.

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		<p>Non-exchange transactions:</p> <p>Non-cash generating assets:</p> <p>Secondary issues are those that also have implications for private sector entities (although the materiality may be lower). I suggest the IPSASB try to work with the IASB on these issues.</p>	
025	C	<p>The document as a whole does not adequately develop the characteristics of constitutional structure and its importance from a conceptual perspective. It should allow consideration for financial reporting that reflects different jurisdictional attributes and constitutional structures. If a conceptual framework develops principles that do not appreciate the unique characteristics or legislative structures across different governments and its government organizations, it will not provide financial information that is useful and informative for the primary user.</p> <p>In addition to these general comments noted above, I offer the following details that are of significant concern to the Province in relation to the specific proposals of this document. In particular, I specifically reference paragraphs 6.3, 6.6, 7.2 and 8.1 as these discuss concepts that have been identified in the other phases of the IPSASB's Conceptual Framework Project to which we have raised concern. It is our position that rather than posing questions, the document should provide more rationale to understand acceptable differentiation required from private sector accounting standards when considering concepts that are unique to the public sector.</p>	<p>Paragraph 1.2 noted that globally the public sector varies considerably in both its constitutional arrangements and its method of operations. In a document of this size it is not feasible to provide a detailed analysis of different constitutional structures.</p> <p>In addition, IPSASs are not intended to address each jurisdiction's unique structure and reporting requirements, but to set standards appropriate for all public sector entities, taking into account public sector differences overall.</p>
026	B	<p>The document provides useful background information on the key characteristics of the public sector. However, the discussion focuses mainly on specific characteristics of governments and contains limited references to other public sector organizations. The Task Force notes that the Exposure Draft contains a reference to the United Nations system, although the context of the reference needs to be clarified (please see second comment on paragraph 1.3 of the Exposure Draft).</p> <p>The title of the Exposure Draft implies the intention of the IPSAS Board to analyse the potential implications of the key characteristics of the public sector on financial reporting of public sector entities. However the Task Force's view is that this aspect has not been profoundly addressed in the Exposure Draft. The discussion acknowledges the potential implications of each characteristic on financial reporting at the end of each section. In the Task Force's opinion further amplification of these implications would enhance value of discussion presented in the Exposure Draft.</p>	<p>Staff agrees that, without going into great depth, there should be more material on aspects of the financial arrangements of international organizations such as their financing.</p> <p>The purpose of the document was to identify characteristics that may have an impact on the Framework and standard-setting rather than to definitively conclude that they do have an impact.</p>
028	A	We agree that the document provides useful background information on key characteristics and	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		identifies some potential implications for financial reporting.	
029	A	This document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting.	See above "General Comments".
030	A	Generally, we are in agreement with the views and positions expressed in the Exposure Draft. Overall, we feel that the document is an excellent introduction to the Conceptual Framework as it provides a basis of understanding of the unique characteristics of the Public Sector when reviewing the Conceptual Framework.	
031	A	<p>We believe that the Exposure Draft provides crucial information about key characteristics of the public sector – not just background information. The key characteristics of the public sector are a foundational piece for establishing a stand-alone conceptual framework.</p> <p>The key characteristics set out the environment within which a public sector entity operates. Once identified, the key characteristics of public sector entities can be evaluated to determine which have accounting or financial reporting implications. A characteristic should only give rise to specific accounting or reporting requirements if those requirements meet users' needs for information about the public sector entity.</p> <p>The nature and quality of the financial information reported in financial statements is determined by users' needs for information about the public sector entity and the attributes that make that information useful to users and support the achievement of the objectives of financial reporting.</p> <p>Some key characteristics may only provide context about the environment in which a public sector entity operates and may have no specific accounting or financial statement reporting implications. Some key characteristics may have implications for reporting outside of the financial statements.</p>	
032	A	The DGFIP considers the publication of the ED on key features of public sector is essential to understand the accounting consequences both for the conceptual framework and for the elaboration of related accounting standards.	
033	C	<p><b>Unclear purpose</b></p> <p>The AASB agrees that the ED provides some useful background on the key characteristics of the public sector and their potential implications. However, the AASB is concerned that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework or link those characteristics to proposals in other IPSASB Conceptual Framework consultation documents. Therefore, the ED's purpose is unclear.</p> <p>In respect of the concern above, the AASB notes that recent IPSASB Conceptual Framework consultation documents discuss the implications of:</p> <p>(a) the holding of property, plant and equipment primarily to provide goods and services, rather than to generate net cash inflows (referred to in paragraph 4.1 of the ED);</p>	Staff acknowledges that the linkages with different phases of the Conceptual Framework were not clear. This was intentional because the purpose of the document was to provide background and to highlight potential implications rather than to state definitively what those t implications are,

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		<p>(b) the longevity of public sector entities and the very long time horizons for their service delivery programs (referred to in paragraphs 6.1 – 6.6 of the ED);</p> <p>(c) the regulatory role of government (referred to in paragraphs 7.1 – 7.2 of the ED); and</p> <p>(d) the power of governments to grant rights to natural resources and licences to act in a certain manner (referred to in paragraph 8.1 of the ED).</p> <p>However, those implications are not clearly reflected in this ED. For example, in the third sentence of paragraph 7.2, obtuse references are made to the implications of public sector entities' regulatory responsibilities for the determination of the reporting entity and the scope of financial reporting. It would be more helpful to state those implications directly. For example, it is difficult to glean why regulatory responsibilities should affect the scope of financial reporting, as some might argue that regulation is one of the services that public sector entities provide (and therefore that regulation would simply be the subject of any disclosures about service performance).</p> <p>In addition, the implications of other key characteristics identified in the ED appear not to be discussed at all in the recent IPSASB Conceptual Framework consultation documents. For example, whilst the ED notes that a significant proportion of transactions of not-for-profit public sector entities are 'non-exchange', neither the ED nor the IPSASB Conceptual Framework consultation documents explain why different accounting principles should apply to 'exchange' and 'non-exchange' transactions. For instance:</p> <p>(a) paragraph 2.6 of the ED does not explain the implications of transfers with conditions being essentially non-exchange; and</p> <p>(b) paragraph 2.7 notes that income from non-exchange transactions has implications for the definitions of assets and liabilities, without saying what those implications are.</p> <p>As mentioned in its submission on the IPSASB's Conceptual Framework Consultation Paper <i>Elements and Recognition in Financial Statements</i>, the AASB considers the issue of whether to distinguish exchange and non-exchange transactions to be 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.</p> <p><b>Overstated distinctions</b></p> <p>The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities.</p> <p>AASB recommends integrating the discussion of the key characteristics (and their implications for financial reporting) with the other components of the IPSASB's draft Conceptual Framework, and removing overstatements of the public-sector-specific nature of the key characteristics identified.</p>	<p>Staff agrees that the reference is oblique (rather than obtuse) and that it should be expanded. However, staff notes that one respondent to CF—CP2 did consider that the use of the term "regulate" in the context of the definition of an asset can cause confusion.</p> <p>Staff acknowledges the view of those who argue that accounting requirements should not distinguish between exchange and non-exchange transactions. However, Staff considers that the distinction between exchange and non-exchange transactions does need to be considered in the Framework, particularly in the context of the definition of a liability.</p>

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034	D	<p>It is the view of the Province of Manitoba that the selection of the key characteristics should not only define the operating environment of public sector entities, but should also have significant accounting and financial reporting implications. A characteristic would have significant accounting and financial reporting implications if it affected the usefulness of the information to the users. Understanding what is useful to users will help standard setters develop a conceptual framework. The key characteristics should be common to the operating environment for all levels of government. Further the key characteristics should not only define the operating environment of governments but should also be applicable to other non-government entities in the public sector.</p> <p>Financial statements should communicate the accountability of governments and other public sector entities to users. The Province of Manitoba views the budget as the single most significant characteristic of all governments and public sector entities. The budget is the key instrument for public accountability. Budgets are widely distributed and allow users to judge how well a public sector entity has met its financial objectives. Accountability in the public sector goes beyond simply reporting surpluses and deficits and net debt position. Financial statements should also communicate whether resources were administered by the public sector entity within its authorized limits.</p> <p>The Province of Manitoba also views the nature of property, plant and equipment (PPE) and the significance and volume of non-exchange transactions as key characteristics of the public sector. PPE in the public sector is generally held to provide services to the public rather than generating cash flows. The transactions of public sector entities are primarily of a non-exchange nature. Taxes, fines, penalties, licenses and royalties are more involuntary in nature in comparison to exchange transactions in the private sector. The parties involuntarily providing the resources do not necessarily receive goods and services of approximate value.</p> <p>While the ED lists a number of other key characteristics of the public sector, many of these do not have significant accounting and financial reporting implications or are not generally applicable to non-government public sector entities:</p> <ul style="list-style-type: none"> <li>• Responsibility for national and local heritage;</li> <li>• Longevity of the public sector;</li> <li>• Regulatory role of government</li> <li>• Ownership or control of rights to natural resources</li> <li>• Statistical basis of accounting</li> </ul>	Focus on user needs noted.
035	A	In response to the two specific matters you have requested comment upon; the Province believes that the current Exposure Draft provides essential foundation material for the development of IPSASB's Conceptual Framework and that it should form part of the Conceptual Framework.	Support for including in the CF. Specific comment on SMC2 considered in that section.
036	B	SRS-CSPCP strongly agrees that there is a need to identify where the public sector presents	Staff agrees that economic

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		<p>characteristics that are different from those of the private sector and that necessitate a different financial reporting than that used in the private sector.</p> <p>For persons, who do not have wide knowledge of the public sector, this introduction is certainly helpful.</p> <p>The focal matters listed in the draft are all characteristic for the public sector. How far the list/description should go is a question of the level of detail. However, the following topics seem to have been given too little attention. All of them can have a significant impact on financial reporting in the public sector.</p> <p>As this consultation is likely to be key for the further development of the IPSAS, the SRS-CSPCP has attempted to make detailed comments.</p> <p>In general it is to be commented that the paper could be better organised. In the present version the individual elements follow one another without evidence of an underlying logic.</p> <p>The beginning should – as is already the case – be the <b>Introduction</b> with the statement that the chief objective in the public sector is not the generation of profits (by maximising income or minimising costs) (Headings 1 and 2). The next section would deal with the <b>purpose of the state</b>. One possibility would be to select a wide and familiar classification of state purposes. A traditional classification is for example that of Musgrave &amp; Musgrave (1989)<sup>1</sup>.</p> <p>The authors distinguish three types of purposes: correction of the allocation of resources, redistribution of income and wealth, and stabilisation of the economy (macro-economic). These purposes appear in the Key Characteristics, but without any logic, and are widely scattered.</p> <p>Elements for the redistribution of income and wealth can be found already under Heading 1.4. Other elements concerning the allocation of resources are found under Headings 2.8 and 2.9 and 5. After the functions the state's various <b>intervention possibilities</b> should be discussed, which are controlled for the most part through the budget<sup>2</sup>: (a) by the expenditures and revenues (including taxes, which are treated under Headings 2.4 to 2.7); (b) by ownership (Heading 8); (c) by regulation (Heading 7). Then should follow the <b>control of public action</b> with (a) the going concern principle; (b) the importance of the budget process (Heading 3) and (c) the importance of statistics (Heading 9). It should be made clear in every item how it impacts financial reporting.</p>	<p>management probably needs more emphasis. However, Staff notes that the ED provides a general and high-level overview.</p>
037	A	<p>HoTARAC agrees the document provides useful background information on the key characteristics of the public sector.</p> <p>However, as discussed in the 'general comments' above:</p> <ul style="list-style-type: none"> <li>• HoTARAC believes that the consequences of the characteristics on financial reporting and the Conceptual Framework need to be addressed. This includes examining the implications of the key characteristics on transactions and user information needs.</li> <li>• A number of the characteristics identified are not necessarily unique to the public sector, but rather they may relate to transactions that are more prevalent or significant. This may justify modifications to private sector requirements, where it is necessary to ensure that public sector</li> </ul>	<p>See Staff comments in "General Comments" section.</p> <p>Staff agrees that this should be more clearly acknowledged.</p>

R#	CATE- GORY	COMMENTS ON SMC 1	STAFF COMMENT
		user needs are met. This needs to be more clearly acknowledged in the ED.	
038	A	We agree that the document provides useful background information on the key characteristics of the public sector and that the document provides useful information that will assist in the financial standard setting process.	

**SMC 2: Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (i) As part of Conceptual Framework;
- (ii) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or
- (iii) Elsewhere with some other status-please specify?

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

<b>(A) PART OF CONCEPTUAL FRAMEWORK (#3, 4, 5, 7, 8, 10, 11, 12, 13, 14, 16, 18, 19, 20, 21, 22, 23, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38)</b>	<b>28</b>
<b>(B) SEPARATE SECTION OF HANDBOOK</b>	<b>0</b>
<b>(C) ELSEWHERE WITH SOME OTHER STATUS (#1, 9)</b>	<b>2</b>
<b>(D) EITHER AS PART OF THE CONCEPTUAL FRAMEWORK OR ELSEWHERE WITH SOME OTHER STATUS (#6, 26)</b>	<b>2</b>
<b>(E) NO CLEAR VIEW EXPRESSED (#25)</b>	<b>1</b>
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>	<b>33</b>
<b>(F) DID NOT COMMENT (#2)</b>	<b>5</b>
<b>TOTAL</b>	<b>38</b>

<b>R#</b>	<b>CATE-GORY</b>	<b>COMMENTS ON SMC 2</b>	<b>STAFF COMMENT</b>
001	C	<p>In response to the specific question raised in the Invitation to Comment regarding the placement of this document, we are of the view that:</p> <ul style="list-style-type: none"> <li>The document should not necessarily form part of the introduction to, or text of, the conceptual framework. This document has links to the conceptual underpinnings of the pronouncements issued by the IPSASB and it has very clear implication for the standard-setting agenda and standard-setting activities of the IPSASB.</li> <li>As a result, we believe that this document could enhance certain aspects of the existing Preface. In particular, it could be used to enhance paragraph 18 of the Preface with outlines the process followed by the IPSASB in identifying projects and how it sets specific standards. By using the Paper to enhance the Preface, credibility would be given to the pronouncements issued by the IPSASB's as a clear outline would be provided of the key issues the Board considers in developing its Standards.</li> <li>Regardless of the placement of the document, the scope of the Paper could be expanded to highlight the fact that, while there are many public sector issues that may result in different reporting to the private sector, there are certain transactions that are sector neutral, e.g. leases and certain financial instruments. In these instances, there may be little or no difference between the issues faced by the private and public sector.</li> <li>If this Paper supplements the Preface, the conceptual framework should state that these are key issues that were considered in formulating the concepts underlying the IPSASB's</li> </ul>	Noted that Respondent supports inclusion in Preface.



R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		pronouncements. The comments outlined in this letter have been prepared by the Secretariat and not the ASB Board. In formulating these comments, the Secretariat undertook a limited consultation with preparers, auditors and other interested parties in South Africa.	
003	A	The Conceptual Framework Exposure Draft issued by IPSASB in December 2010 includes a dedicated section on the reporting entity. Whilst this subsequent ED provides useful background information in understanding the key characteristics of a public sector entity's financial reporting, we believe that the information should be integrated as part of the Conceptual Framework to demonstrate not only the key characteristics of public sector entities, but also how these characteristics would impact upon the financial (and non-financial) reporting of those entities. It may be possible that such a discussion could be suitably located within the basis of conclusions that form part of the CF.	
004	A	We agree. In our view, the content of this document should be placed with the conceptual framework given the close interrelationship between the items.	
005	A	More important, however, the ED does not always state clearly what are the potential financial reporting implications of the specific characteristics described, or how they would be taken into account. We consider that the final document, when incorporated into the Conceptual Framework, should include references to where the reporting implications are described in more detail, whether in the Conceptual Framework or in specific standards.  As noted above, we consider that it provides useful information which will help those new to Public Sector accounting to understand the Conceptual Framework, and that it should therefore be included as an integral part of the Conceptual Framework, in the same way that Bases for Conclusions and Implementation Guidance are integral to International Public Sector Accounting Standards.	See also General Comments by this Respondent for more context.
006	D	This Exposure Draft follows on from the first three documents on the Conceptual Framework of public sector entities. It should be included as part of the IPSAS Board literature, either in the Conceptual Framework or elsewhere.	
007	A	It is our opinion that this document should be included as part of the IPSASB's literature and that it preferable should be located as a part of the Conceptual Framework (a).  We consider that the paper identifies, and provides a general overview of, some of the main characteristics of the public sector that distinguish it from the private sector and therefore have potential implications on the development of a conceptual framework that reflects public sector circumstances, and accounting standard setting for the public sector. Furthermore we agree with the view, that the paper not is intended to provide an exhaustive listing of all the areas concerning the basic characteristics of the public sector.	
008	A	If the document is restructured to provide a clearer link between the characteristics of the public sector and the financial reporting implications as suggested above, we feel that this should be	Categorization on basis that CF is restructured as per

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		part of the conceptual framework within the IPSASB literature. However, as the current exposure draft is worded, we do not feel that it provides information that should be part of the conceptual framework. It would be better positioned as a useful reference or information source on the IPSASB website, outside of its authoritative literature and standards, providing generic information on the public sector.	suggestions.
009	C	<p>The Exposure Draft follows on from the three first documents on the Conceptual Framework for Public Sector Entities. We therefore agree that it should be included as part of the literature published by the IPSAS Board.</p> <p>The Council feels that the Exposure Draft has the aim of identifying and clarifying the specific characteristics of public sector entities for non-specialists. Consequently, the Council believes that it should not be included as such in the Conceptual Framework itself, but should be used to help support the positions adopted in developing the Conceptual Framework.</p>	Specific view against inclusion in the CF.
010	A	We entirely support the inclusion of the document as part of the IPSASB's literature and recommend that it should be part of the conceptual framework, for easy reference	
011	A	<p>The need for an IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is driven by the key characteristics of the public sector that distinguish it from the private sector. If these key characteristics did not exist, then it is likely that the IASB's conceptual framework would be sufficient to meet the needs of users of general purpose financial reports of public sector entities.</p> <p>We would support the inclusion of the material in this document as part of the Conceptual Framework. We believe that by identifying the key characteristics of the public sector and the potential implications of those key characteristics for financial reporting, it provides a justification of the need for a Conceptual Framework and the foundation upon which the rest of the framework is developed.</p>	
012	A	We agree that this document should be included as part of IPSASB literature. The discussion of each issue concludes with an indication of which element of financial reporting in the public sector would be affected, and therefore we feel that it would integrate well into the conceptual framework, perhaps as part of the preamble or introductory sections. Were it to be established as a stand-alone document we feel that it would risk appearing rather awkward as it would be difficult to place the issues it raised in an appropriate context, locating it within the conceptual framework therefore appears to be the best solution. However, as we set out in paragraph 6 above, although it can play a useful role in the conceptual framework, there is also the danger that the document could influence the development of standards toward greater sector specificity. This would, we feel, be detrimental and therefore we urge the Board to consider these implications carefully.	<p>General comments of this respondent express clear support for inclusion in CF.</p> <p>Specific view against a stand-alone document.</p>
013	A	<p>We consider that a suitably modified document should be included as part of the IPSASB literature.</p> <p>When complete, it should be integrated with other parts of the Conceptual Framework, clearly</p>	The ED appropriately notes that GBEs are part of the public sector. Staff considers

R#	CATE- GORY	COMMENTS ON SMC 2	STAFF COMMENT
		<p>linked to and from the other statements in the Conceptual Framework so that together they form a robust and coherent basis for the development of related standards.</p> <p>It is important to note that in Phase 1 of the Conceptual Framework, the Government Business Enterprises (GBEs) were clearly excluded from the scope. However, this paper states that the term 'public sector' includes GBEs. On the assumption that this paper and the Conceptual Framework papers are intended to be consistent it is important to clarify this issue in the exposure draft to avoid any confusion/misinterpretation by the users.</p>	the issue raised by the respondent to be not whether GBEs are part of the public sector, but rather, how they relate to the reporting entity (i.e., the approved IPSASB project on GBEs will deal with this latter issue).
014	A	We agree that it would be useful to include a document developed from this material in the IPSASB literature, attached to or placed with the Conceptual Framework material to which it provides introductory background.	
016	A	I agree with this document I think that these information can be included in the Conceptual Framework and one indicated considering the importance in the Handbook of International Public Sector Accounting Pronouncements documents.	
018	A	<p>I <b>agree</b> the document should be included as part of IPSASB literature.</p> <p>I think it should be included as an <b>Appendix to the Conceptual Framework</b>, and a more detailed guidance where these issues are discussed in more detail issued as a <b>Supplement to the IPSAS Handbook</b>. The Supplement guidance could also have best practices and lessons learnt from the countries where IPSAS have been successfully implemented. This way this guide serves as a tool for finance people (accountant general, auditor general etc) in the public sector to use as they convince the policy makers to enforce IPSAs implementation possibly through some enacted law(s). While IFAC and the Member Bodies may push for IPSAS implementation those who influence law making and enforcement are those with political power, hence the need for a tool to facilitate the discussion with the law enforcement group in the various countries.</p>	In CF with more details provided elsewhere in the IPSAS Handbook.
019	A	We agree that this document should be included as part of the IPSASB's literature and we believe that it should be included in the Conceptual Framework. To clarify two portions of the document, we have suggested additions to the wording of the document.	
020	A	We believe that the document should be part of IPSASB's Conceptual Framework.	
021	A	<p>Subject to our comments above, we agree that the paper provides useful background information on the key characteristics of the public sector as well as potential implications of those key characteristics for financial reporting. We believe it would be helpful if parts of the material were integrated into specific sections of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.</p> <p>For example, paragraph 2.3 of the exposure draft puts a case for expanding financial reporting in the public sector beyond GPFSSs. This sort of material would likely be useful in Phases 1 and 4 of the Conceptual Framework, to the extent that it could explain the circumstances in which sufficient differences between the private and public sectors exist that may necessitate concepts</p>	In CF with more details provided elsewhere in the IPSAS Handbook.

R#	CATE- GORY	COMMENTS ON SMC 2	STAFF COMMENT
		<p>being applied that differ from those applicable to the private sector, or emphasize aspects that may otherwise influence the application of shared concepts in a public sector environment. In addition, the sections of the Conceptual Framework dealing with the recognition of elements in Phase 2 as well as measurement bases in Phase 3 could, for example, be enhanced by including material covering various relevant public sector specific aspects e.g., from paragraph 5.2 concerning the phenomena related to “national or local heritage”, also the discussion of programs with long-term horizons in paragraph 6.3. We suggest the IPSASB consider each aspect in its own merit in determining which such material could usefully be included within the final version of the Conceptual Framework.</p> <p>On the assumption that the IPSASB will follow our suggestion to integrate some of the material into the Conceptual Framework, the (remaining information in the) paper could be included as a separate section of the Handbook of International Public Sector Accounting Pronouncements, covering general aspects to assist a wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.</p>	
022	A	We do agree and would like to see it included as part of the conceptual framework. Our position is based on the premise that the key characteristics form the basis for the conceptual framework.	
023	A	<p>This has been a useful document in developing thinking about financial reporting issues in the public sector. This document (if revised) would be useful in determining the work priorities of the IPSASB. That is, the IPSASB should work on those issues that are more fundamental to public sector financial reporting.</p> <p>Should it be part of the conceptual framework? I do not believe the whole document should be in the <i>Framework</i>. It may be that some parts of it are suitable for framework (e.g., the objective of reporting); parts might be suitable for other frameworks (e.g., non-financial reporting); and parts might be suitable for individual accounting standards (e.g., non-cash generating assets).</p>	In CF with more details provided elsewhere in the IPSAS Handbook.
025	E	While it is recognized that this ED has been developed as part of this project, it is our position that the topics addressed in this ED should have been issued with the Exposure Draft and Consultation Papers that were Phases I, II, and III of the IPSASB's project on the <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> .	It is not clear whether this Respondent is suggesting inclusion within the CF or simply commenting on the fact that it should have been integrated within the ED for Phase 1 and the Consultation Papers for Phases 2 and 3.
026	D	<p>The Task Force agrees that this document can be included as part of the IPSASB's literature. Some members of the Task Force share the view that the finalized version of the Exposure Draft belongs within the Conceptual Framework due to its overarching nature for financial reporting.</p> <p>It is also important to consider the authority of the finalized document when determining its</p>	Staff agrees that the authority of the Framework must be considered.

R#	CATE- GORY	COMMENTS ON SMC 2	STAFF COMMENT
		location in the IPSASB's literature. If it is expected that the concepts introduced by this document would be applied to GPFR, then it is reasonable to incorporate them in the finalized Conceptual Framework. Alternatively, if the Board is of the view that the concepts of the finalized Exposure Draft would be also used by preparers of GPFS, then it might be more appropriate to include them as a separate section of the Handbook to extend their authority beyond GPFRs.	
028	A	<p>We strongly agree that it would be useful to include a document based on the Exposure Draft in IPSASB's literature.</p> <p>We consider that a document based on the ED be preferably placed with the Conceptual Framework material to which it provides introductory background. Alternatively it could be put into the Handbook as part of the introductory material for the IPSAS standards.</p> <p>The Exposure Draft is well drafted and the broad direction of the material is excellent.</p> <p>We believe that the document will be most useful if it is clear and concise and so we would suggest some improvements. In general there is some material that needs more explanation; some duplicated material and some that is relevant to the public sector but does not provide additional content from a financial reporting standpoint.</p> <p>The ED is careful to avoid representing approaches in particular jurisdictions as being universal but there are some cases where this approach has not been applied.</p>	Preference for inclusion in the CF.
029	A	<p>Ontario agrees that the concepts of this document should be included in the IPSASB's literature, and in particular, as part of the conceptual framework.</p> <p>The material in this document is an important basis to develop and interpret the conceptual framework and therefore would be best integrated into the specific conceptual framework documents and the supporting Basis of Conclusion documents.</p>	
030	A	The Board has asked for specific comments on how the document should be included in the Board's various forms of literature. The various areas of discussion could be incorporated into the introduction and/or similar sections of the Conceptual Framework with some sections (i.e. Nature of Property, Plant and Equipment) being incorporated into the respective sections of the Standards if the Board so chooses. We do not believe that there is any merit in having the Exposure Draft as a stand alone document given the breath of information contained in the document and how closely it is linked to the Conceptual Framework.	Staff notes the view that standalone document is not favored.
031	A	<p>We believe that the key characteristics of the public sector should be set out as an integral part of the Conceptual Framework.</p> <p>They should be located at the beginning of the framework because they are the reason a framework tailored to the public sector will exist in the first place.</p> <p>They should each be identified and described. Then, a table should set them out indicating whether they:</p> <ul style="list-style-type: none"> <li>• have accounting implications.</li> </ul>	Staff notes preference for inclusion in the CF and view that a table should be compiled indicating the impact of the characteristics.

R#	CATE- GORY	COMMENTS ON SMC 2	STAFF COMMENT
		<p>That is, does the characteristic require that a specific public sector standard exist or be developed? Does it require that a particular treatment within a public sector standard that is comparable to a private sector standard exist or be developed? Does an asset, liability, revenue or expense exist? When/how should an item be recognized in annual results? Is the entity a going concern? The implications should be described and explained.</p> <ul style="list-style-type: none"> <li>• have reporting implications.</li> </ul> <p>That is, does the characteristic require that a particular item or indicator or comparison (e.g., actual to budget) be reported in the financial statements? Or is a new/different financial statement or a new/different financial statement format required? The implications should be described and explained. These implications may affect the indicators reported in the financial statement reporting model for public sector entities.</p> <ul style="list-style-type: none"> <li>• are purely contextual in describing the environment within which a public sector entity operates.</li> </ul> <p>As such, they should be taken into account in developing any new/amended standards or guidance.</p> <p>If a characteristic has accounting or reporting implications, the table should indicate where in the framework or accounting standards or financial reporting requirements these implications have been addressed or indicate that they will be the subject of future IPSASB deliberations.</p>	
032	A	<p>DGFIP considers that a strength and consistent link between this ED and the conceptual framework should be made explicit. This document enables to stress the meaningfulness and specialised nature of some activities of public sector entities.</p> <p>However, DGFIP considers that accounting consequences of those characteristics are not always clearly stated. Thus, it seems that the document cannot in its present format be included in the conceptual framework.</p> <p>Some elements, such as for instance the notion of state sovereignty, could be included in the conceptual framework, since they explain and justify the need of some specialised accounting rules and standards for the public sector.</p>	Staff notes view that some aspects could be included in the CF subject to further development.
033	A	<p>The AASB recommends integrating the discussion of the key characteristics (and their implications for financial reporting) with the other components of the IPSASB's draft Conceptual Framework, and removing overstatements of the public-sector-specific nature of the key characteristics identified.</p> <p>Because the ED's objective is unclear, the best location of its proposed material is difficult to assess.</p> <p>As mentioned in its comments on Specific Matter for Comment 1, the AASB recommends that the IPSASB integrates its discussion of the key characteristics (and their implications for financial reporting) with the other components of its draft Conceptual Framework. If the IPSASB did this, it would not be particularly important whether, and if so where, the Key Characteristics were</p>	Staff notes preference for inclusion in the CF.

R#	CATE- GORY	COMMENTS ON SMC 2	STAFF COMMENT
		repeated elsewhere within IPSASB literature (e.g., as a compendium or other educational material).	
034	A	The key characteristics define the operating environment of public sector entities. Understanding the public sector environment, and how it is different from the private sector, is important for developing accounting and financial reporting standards that are useful to users. Therefore it is the view of the Province of Manitoba that the document on the characteristics of the public sector should be included as part of IPSASB's Conceptual Framework.	Preference for inclusion in the CF noted.
035	A	In response to the two specific matters you have requested comment upon; the Province believes that the current Exposure Draft provides essential foundation material for the development of IPSASB's Conceptual Framework and that it should form part of the Conceptual Framework.	Preference for inclusion in the CF noted.
036	A	The Key Characteristics should be part of the Conceptual Framework. Otherwise they lose importance. With their integration into the Conceptual Framework the variations from IAS/IFRS because of peculiarities in the public sector would rest on a stronger foundation, which would be looked at positively.  The individual parts of the Conceptual Framework should be supplemented with an introduction that seemingly remains to be written. The introduction should explain the aim and purpose of the Framework and its general structure. After this introduction the Key Characteristics would emphasis, as a first chapter, the peculiarities of the public sector and the differences compared with the private sector. Only then should follow the actual four phases of the Conceptual Framework.	Preference for inclusion in the CF noted.
037	A	HoTARAC members agreed that the ED should examine the implications of the public sector key characteristics on financial reporting and IPSASB's Conceptual Framework. Once these implications are considered, HoTARAC strongly supports the inclusion of this document in IPSASB's Conceptual Framework.  <i>Reasons for the document to be included in the Conceptual Framework (Majority HoTARAC view)</i>  A majority of HoTARAC members strongly agree with the view that the document should be part of the Conceptual Framework if it assists in developing the key concepts underlying financial reporting and differentiates between public and private sector financial reporting. As noted above, if the document is to be included as part of the Conceptual Framework, HoTARAC recommends there be a clear correlation between the financial reporting implications raised in the ED and the matters covered in IPSASB's Conceptual Framework.  <i>Reasons for the document not to be included in the Conceptual Framework (Minority HoTARAC view)</i>  A minority of HoTARAC members suggested that a more appropriate location for this would be as a supplement to the IPSASB document <i>Process for Reviewing and Modifying IASB documents</i> . These HoTARAC members believe that while the document may be an input into the	Preference for inclusion in the CF of the majority noted, as is the minority view that it should be included as an Appendix to the <i>Rules of The Road</i> . Staff notes that the future of the <i>Rules of the Road</i> is questionable once the Conceptual Framework has been completed.

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		<p>Conceptual Framework (i.e. in guiding its development), it should not form part of the Conceptual Framework otherwise it could be deemed to be authoritative guidance. Rather, the Conceptual Framework is, in part, an output of considering the key characteristics document, rather than the document forming part of the framework itself.</p> <p>Instead, the document could form part of or be used to supplement or enhance the IPSASB document <i>Process for Reviewing and Modifying IASB documents</i>. That is, the document may be relevant in identifying key characteristics of the public sector, which impact on transactions and user needs, and which may justify departures from the private sector IASB's Framework and Accounting Standards.</p> <p>For example, the Australian Accounting Standards Board (AASB) document <i>Process for modifying IFRSs for PBE/NFP</i> identifies the following factors as being relevant when considering user needs and assessing whether a departure from International Financial Reporting Standards (IFRS) may be warranted:</p> <ul style="list-style-type: none"> <li>• Nature of transactions, events and circumstances and their impact on Public Benefit Entities (PBE)/Not For Profit entities (NFPs);</li> <li>• Benefits to users of complying with IFRS; and</li> <li>• Costs of complying with IFRS.</li> </ul> <p>Consistent with HoTARAC's comments on the draft IPSASB Conceptual Framework documents, HoTARAC believes that the IPSASB and IASB Conceptual Frameworks should be consistent, except to the extent that differences exist between the public and private sector which impact on transactions and user information needs. Therefore, on this basis, a minority of HoTARAC members believe that the most appropriate role for the ED is to assist in the process for identifying where such departures may be appropriate.</p>	
038	A	We agree that this document should be included as part of the IPSASB's literature and we believe that it should be included in the Conceptual Framework.	Preference for inclusion in the CF noted.



## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS
004	<p><i>Refer to Para. 1.3</i></p> <p>The expression “public sector” should be defined more precisely. The proposed content of the paragraph identifies entities that are part of the public sector, but it gives no guidance on the criteria to be used to conclude that a given entity is included in the public sector. In Canada, for example, the guidelines to be used are clear and refer to entities that are either included or not in the government reporting entity.</p>	<p>Currently the definition is in paragraph 12 of the Preface. Staff agrees to consider clarification of the definition of “public sector”; however it may depend on where the material is placed (SMC2).</p>
005	<p>While we agree with the example public sector entities in Section 1.3, the section would be more helpful if it also provided a clear definition of the public sector. The section should include a discussion on the treatment of specific groups among the public (e.g. First Nations) and their inclusion in or exclusion from the public sector. Similar discussion should be included regarding treatment of quasi-government bodies such as state funded school systems.</p> <p>Whilst we concur with the IPSASB’s comments in this Section, we would wish to add the following to Section 1.4:</p> <p>“Moreover, the success of public sector entities often reflects the effectiveness with which they deliver services and/or the efficiency of their delivery, rather than the impact of the activities. For example, a department with responsibility for collecting taxes would be assessed on whether taxes were collected efficiently and in accordance with the law, and on the comparison of the actual amount collected with the estimate in the budget. It is only at the Whole-of-Government level that the overall income and expenses can be examined.”</p>	<p>Staff agrees to consider clarification of the definition of “public sector” and the comments on effectiveness are noted.</p> <p>However how they are dealt with may ultimately depend on where the material is placed (SMC2).</p> <p>Staff does not accept this point.</p>
007	<p>Refer to Para. 1.3, concerning the general definition of the “The public sector”.</p> <p>In the Danish system the “Government Business Enterprises (GBEs)” - known as public corporations - are considering to be basically operating on market conditions and are as a consequence not covered by the state regulatory framework but follow the private sector accounting rules.</p> <p>The public sector should not include the private not-for-profit sector, even though this sector - as mentioned - does share many of the same characteristics of the public sector. However not for profit entities, which operate under government license, are primarily financed by government and can not be sold according to the law - is in Denmark covered by the state regulatory framework.</p>	<p>The Preface to IPSAS states that GBEs follow IFRSs. The IPSASB approved a project on GBEs at its December 2011 meeting. Specific issues related to GBEs would be considered in that project.</p>
007	<p>Refer to Para. 1.5, concerning the fact that there is numerous of areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector.</p> <p>In such cases the concepts that should be applied to determine appropriate financial reporting will probably resemble those in the private sector. On the other hand, this does not preclude</p>	<p>Staff agrees that transaction neutrality may be appropriate in cases when there are no specific public sector characteristics that would affect that position; however, it is not a</p>

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS
	conceptual perspectives that differ from those in the private sector and in some cases significantly.	presumption in all cases.
009	<p>The scope includes national governments and related entities, local authorities, regulatory bodies, international organisations, as well as public corporations whose funding is mainly public. Entities with public status carrying out non-market activities such as social security organisations are also included in the scope. According to the Exposure Draft, not-for-profit private sector entities are rightly excluded from the scope when they are mainly privately funded (by public generosity, donations...).</p> <p>We have two comments on the introduction to the Exposure Draft. Firstly, we think that supranational organisations like the European Union should also be explicitly included in the scope. Secondly, the criteria for including an entity in the scope should be clarified.</p> <p>In this respect, it is essential to emphasise the non-market or non-competitive characteristic of goods and services provided by public entities, which does not preclude the beneficiaries from making a financial contribution to some of them.</p>	<p>Staff agrees to consider clarification of the definition of “public sector”.</p> <p>However how it is dealt with may ultimately depend on where the material is placed (SMC2).</p>
013	<p>Introduction (Paragraphs 1.1 -1.6)</p> <p>We consider that it would be more useful to discuss the nature of government (and other public entities) in their own right rather than limit the introduction to a discussion of how governments and public sector entities differ from the private sector. The approach at present is limited in providing the understanding necessary for identification of key characteristics with potential implications for financial reporting.</p> <p>ACAG note that the opening “Background” statement in each of the Phase 1, 2 and 3 of the Conceptual Framework project states that:</p> <p><i>“IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The International Public Sector Accounting Standards Board (IPSASB) recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity.”</i></p> <p>ACAG suggest that the present exposure draft needs a much fuller discussion of that diversity in order to be useful. We suspect (but without more information, cannot be sure) that the diversity of political systems and forms of government will have implications for financial reporting. Without this discussion, a reader gains little understanding of “government” in its various forms.</p>	<p>Staff agrees that it is useful to discuss the nature of the public sector in and of itself; however, it may also be useful to retain comparisons with the private sector as this may add support for differences from the “transaction-neutral” approach in future standards projects.</p>

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS
	<p>ACAG also suggest that as part of that fuller discussion and better understanding of “government”, comparisons could be made with the not-for-profit private sector, generally regarded in Australia as the third sector after government and for-profit private sector and for which financial reporting standards are emerging.</p> <p>As stated earlier, ACAG has assumed that paragraph 1.6 attempts to identify the key characteristics of public sector entities. However, it is not clear why some of the items are listed.</p>	
014	<p>The introductory section combines an explanation of the purpose of the paper with rather different material which seeks to introduce the public sector. We are not sure that significant introductory material is necessary, especially as the effect is that material in the introduction is echoed or duplicated elsewhere.</p> <p>Paragraph 1.3 seems rather unclear and provides a definition of IGOs which seems both circular and incomplete. An alternative drafting would be:</p> <p>1.3 In the context of this paper the term “the public sector” includes</p> <ul style="list-style-type: none"> <li>– national governments, sub-national governments, local government units and regulatory bodies which do not generally operate on a ‘for-profit’ basis.</li> <li>– Government Business Enterprises (GBEs) or public corporations, which operate on a for-profit or break-even basis but are governed by a public sector entity</li> <li>– a number of other entities with varying structures and governance arrangements</li> <li>– international governmental organizations (IGOs) and their agencies, including the United Nations and its agencies, regional IGOs such as the European Union or ASEAN, and other IGOs such as the OECD, La Francophonie, and the Organisation of Islamic Cooperation.</li> </ul> <p>The public sector does not include the private not-for-profit sector, although the sectors share many characteristics. Public sector organisations may perform social welfare or other roles which in other jurisdictions are supported by the not-for-profit sector and vice versa.</p> <p>The material in para 1.4 on public sector longevity could be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the other roles of government as provider of social benefits and collective goods.</p> <p>Paragraphs 1.5 and 1.6 could be deleted.</p>	<p>Specific drafting comments (e.g., the editorial comments on paras. 1.4-1.6) will be considered in the context of the IPSASB’s decision on how the material should be published (SMC2).</p> <p>Staff agrees with the suggestion of the respondent and would also provide examples for the third bullet (e.g., departments, agencies, commissions).</p> <p>Staff would not preclude the not-for-profit sector applying IPSASs as they may be the most appropriate accounting principles for such organizations.</p>
015	<p><i>Paragraphs from 1.3 to 1.5.</i> It should be made clear that GBEs are not to be included in the public sector when their future existence is dependent - as for private entities – upon generation of profits.</p> <p><i>Paragraph 1.5:</i> Based upon our experience as well as on the contents of the ED we do</p>	<p>The IPSASB approved a project on GBEs at its December 2011 meeting. Specific issues related to GBEs would be considered in that project.</p>

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS
	believe <i>that the characteristics of the public sector “do give rise” to conceptual perspective that differ from those in the private sector.</i> Therefore we do not agree with the expression used in the ED, where it is said that the characteristics of the public sector “ <u>may give rise</u> ” to conceptual perspective that differ from those in the private sector;	
018	Introduction: paras 1.1 and 1.5 Information needs for public sector may be much more than for private sector, given the various stakeholders hence the level of disclosures will be different from those of private sector. The supplement guidance would thus be helpful in this.	The information needs of users are dealt with in the CF and do not need to be elaborated on in detail in this document.  Specific drafting comments will be considered in the context of the IPSASB’s decision on how the material should be published (SMC2).
023	<b>GBEs</b> A problem with the document is that it separates ‘public sector’ and ‘private sector entities’ on the basis of ‘governance’. For example, in para 1.3 a GBE is different from a private sector entity by virtue of being ‘governed by a public sector entity’. I suspect this is really ‘ownership’ rather than governance. So a <u>necessary</u> criterion for differentiating public sector and private sector is ownership (or governance).  I am not convinced that other characteristics in the ED are <u>necessary</u> to define public sector.  Furthermore, with regard to ‘ownership’ in the wider sense, the document does not appear to consider the information needs of stakeholders. Clearly this ought to have implications for financial reporting  I think the solution is to drop GBEs out of this document. The remaining public sector entities can be described as public benefit entities. The IPSASB should put its main focus on accounting for public benefit entities. While the IPSASB has an obligation to improve for-profit accounting for GBEs, this is a second order issue. The primary producer of for-profit accounting standards is the IASB.	Specific drafting comments will be considered in the context of the IPSASB’s decision on how the material should be published (SMC2).  Staff considers some distinction between GBEs and “public benefit” entities will nevertheless be required.  In addition, this matter touches on whether GBEs are part of the reporting entity, which is a standards-level issue, and which will not be addressed in this document.
024	1) to include in the beginning of paragraph 4 a more general description of the responsibilities of public sector entities, as it is used in the academic field of Public Administration e.g.: ‘Public administration requires politicians and civil servants to use scarce public funds to develop and implement policy with other public organisations and private parties in order to produce outcomes or carry out designated tasks in the public interest. To this end, public organisations take binding decisions and exercise administrative power within the frameworks of the democratic rule of law.’  2) to include in the document a summarized list of criteria of good governance public sector entities have to meet, e.g.:	Specific drafting comments will be considered in the context of the IPSASB’s decision on how the material should be published (SMC2).  The PAIB is collaborating with CIPFA on a project on public sector governance.

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS						
	<p>'It is the responsibility of public sector entities to simultaneously satisfy a series of criteria of good public governance, which are presented in the table below:</p> <table><tr><td><b>Criteria of good public governance</b></td></tr><tr><td>1) Performance criteria: economy, efficiency and effectiveness</td></tr><tr><td>2) Due care criteria: responsiveness, democratic content, regularity, propriety, integrity</td></tr><tr><td>3) Financial criteria: financial solidity and fiscal sustainability</td></tr><tr><td>4) Organisational criteria: quality of internal governance, quality of cooperation with other organisations, innovative power, learning ability, sustainability to people and planet</td></tr><tr><td>5) Accountability and transparency criteria: transparency, quality of accountability arrangements, quality of external audits</td></tr></table> <p>In my opinion, both suggestions are relevant to the principles of external reporting by public sector entities, as the substance of their public accountability and external reporting should reflect the full range of responsibilities and the criteria of good public governance.</p>	<b>Criteria of good public governance</b>	1) Performance criteria: economy, efficiency and effectiveness	2) Due care criteria: responsiveness, democratic content, regularity, propriety, integrity	3) Financial criteria: financial solidity and fiscal sustainability	4) Organisational criteria: quality of internal governance, quality of cooperation with other organisations, innovative power, learning ability, sustainability to people and planet	5) Accountability and transparency criteria: transparency, quality of accountability arrangements, quality of external audits	
<b>Criteria of good public governance</b>								
1) Performance criteria: economy, efficiency and effectiveness								
2) Due care criteria: responsiveness, democratic content, regularity, propriety, integrity								
3) Financial criteria: financial solidity and fiscal sustainability								
4) Organisational criteria: quality of internal governance, quality of cooperation with other organisations, innovative power, learning ability, sustainability to people and planet								
5) Accountability and transparency criteria: transparency, quality of accountability arrangements, quality of external audits								
026	<p>The Task Force suggests that paragraph 1.3 be followed by paragraph 1.2 as paragraph 1.3 establishes the scope of the term “the public sector”. Paragraph 1.2 discusses characteristics of governments, which is one of the groups identified by the term “the public sector” along with other groups. The Task Force believes that the discussion of characteristics of any particular group of entities comprising the public sector should not precede definition of the term and acknowledgement of all groups which it comprises.</p> <p><b>Paragraph 1.3</b> The following points were noted:</p> <p>a. This paragraph seems to imply that the term “the public sector” does not implicitly include public sector organizations which are not governments or local regulatory bodies. The Task Force suggests that the Board re-examines this statement to expand the scope of the term “the public sector” to public sector organizations other than governments.</p> <p>b. The paragraph also states that “in the context of this paper the term also extends to international organizations, such as the United Nations system”. It is not clear what other contexts exist in the area of financial reporting in which the term “public sector” is not applicable to the United Nations system organizations. The Task Force suggests re-examining this statement and enhancing its clarity by removing a limiting reference to a particular context where United Nations system is considered as “the public sector”.</p>	<p>Staff proposes to clarify the wording so it is not misinterpreted (see also #33).</p> <p>With respect to the second comment, in the case of a country, it would not otherwise consider the UN to be part of its public sector. The statement therefore broadens rather than limits the application. This ED is meant to address the international understanding of entities that have adopted IPSASs.</p>						
028	<p><b>General comments on structure and repeated content</b></p> <p>The introductory section seems to combine an explanation of the purpose of the paper with other material introducing the public sector. It might be helpful to separate into:</p>	<p>Specific drafting comments will be considered in the context of the IPSASB’s decision on how the material</p>						

R#	COMMENTS ON SECTION 1 – INTRODUCTION	STAFF COMMENTS
	<p>Introduction to the paper (1.1 and 1.5-1.6)</p> <p>Types of public sector entity and activity (1.2-1.4).</p> <p>The first sentence of paragraph 1.1 is not clear. It might be better to delete it rather than redraft: while it explains that the characteristics of the public sector are relevant to reporting on the sector, it adds little to the second sentence which sets out to identify distinguishing characteristics.</p> <p>The material in paragraph 1.4 on public sector longevity could perhaps be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the role of government as provider of social benefits and collective goods. The material on government's role as regulator in section 7 role could perhaps be made shorter and moved to this section, in line with notes at 14 below.</p>	<p>should be published (SMC2).</p> <p>Staff disagrees with the deletion of para. 1.4 as it doesn't deal with longevity per se, but the economic activity of public sector entities.</p>
032	<p><b><i>The public sector scope</i></b></p> <p>Concerning the scope of public sector's entities, the DGFIP wishes to include supra-national organisations such as European Union, which are not explicitly mentioned in the ED.</p> <p>The DGFIP agrees to exclude of the ED scope the private not-for-profit entities, since these entities are actually financed through private charity fund raising, donations...</p> <p>However, the DGFIP proposes to exclude of the scope the Government business enterprises.</p> <p>At last, the DGFIP outlines the need for identifying more clearly the criteria defining the scope of public sector. Thus, the DGFIP considers that the not-for-profit or not competitive nature of these public sector activities should be outlined. The application of this criterion does not exclude the fact that a part of some public sector activities is directly financed by the beneficiaries through royalties.</p>	<p>Staff agrees to consider clarification of the definition of "public sector to also include "supranational organizations".</p> <p>Re: GBEs – The IPSASB approved a project on GBEs at its December 2011 meeting. Specific issues related to GBEs would be considered in that project.</p> <p>The ED (para. 2.1) specifically identifies that a main objective is to deliver goods and services and not to generate profits.</p>
033	<p>Refer to Para. 1.3</p> <p>In relation to the first sentence, AASB staff suggest inserting ", entities within those governments" after "local government units".</p> <p>Refer to Para. 1.4</p> <p>In relation to the first sentence, AASB staff suggest avoiding the publicly debated issue of whether public sector entities contribute to wealth generation, by replacing "wealth generation" with the more neutral "economic activity".</p> <p>The relevance of the fourth sentence to the IPSASB Conceptual Framework is unclear to us. We question whether the sentence should be retained.</p>	<p>Staff proposes to add a reference to other government entities besides GBEs (see also #26). See the proposed definition in agenda paper 2.A.</p> <p>Staff agrees with the comment on para. 1.4 first sentence and that the fourth sentence of that paragraph could be deleted.</p>
035	The Province has concerns regarding issues that have been raised in this Exposure Draft and	Staff agrees that it is useful to discuss

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	<p>has explained its concerns under the main headings used in the Exposure Draft. In some cases, these explanations are summarized and should be read in conjunction with more detailed comments submitted on the earlier Conceptual Framework papers covering phases 1 through 3 of the conceptual framework project.</p> <p><b><u>Introduction</u></b></p> <p>The intention of providing a broad explanation to readers of the need for public sector accounting standards in the “Key Characteristics” document is appropriate but it is important to address the subtleties correctly. Paragraph 1.1 refers to providing “a general overview of, some of the main characteristics of the public sector that distinguish it from the for-profit private sector”. There are numerous references throughout the paper to differences with or from the private sector, so much so that this takes on a sense of defensiveness and, in our view, conveys a lack of confidence that public sector accounting standards should exist on their own merits. The public sector is fundamentally different than the private sector and is therefore not comparable with the private sector.</p> <p><b><u>Characteristics of the Public Sector</u></b></p> <p>The focus should be on the characteristics of the public sector that drive their reporting requirements. The Province believes that the basic characteristics of government will convey the need for public sector accounting standards without a need for reference to the private sector and include the following:</p> <ul style="list-style-type: none"> <li>• Government is a not for profit organization;</li> <li>• Government holds all the collective assets/resources and liabilities/obligations of the nation/jurisdiction on behalf of all of the people of the nation/jurisdiction;</li> <li>• Government may acquire or own specific assets and incur specific liabilities for the purpose of achieving its policy objectives;</li> <li>• Government provides goods and services to the public or on behalf of the public usually without payment (non-exchange transactions) or where payment is made it usually does not equal the cost or value of the goods or services provided;</li> <li>• Government “income or revenue” results primarily from taxation which is usually unrelated to specific goods or services provided by government;</li> <li>• Government does not have a financial capital base and over time accumulated surplus or deficit are driven to approximate a balanced or nil position; and</li> <li>• Government is accountable to all of the people/citizens within its jurisdiction.</li> </ul> <p><b><u>Reasons for Not Focusing on Comparison with Private sector</u></b></p> <p>Accounting standards in the public sector may come to the same conclusion as the private sector for the same reasons; an example might be that Cash is an asset. Conversely public</p>	<p>the nature of the public sector in and of itself; however, it may also be useful to retain comparisons with the private sector as this may add support for differences from the “transaction-neutral” approach in future standards projects.</p> <p>Other respondents (#33) have argued that the differences have been exaggerated.</p>

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	<p>sector standards may come to the same or similar conclusions but for different reasons; an example might be Tangible Capital Assets (or Property Plant and Equipment). The fact that the presentation on the respective balance sheets is the same or similar is interesting but has no meaning and is of no consequence. There is no basis or reason to compare the financial statements of government or the financial performance of government with a private sector entity; they exist for fundamentally different reasons, therefore there is no reason to make comparisons regarding individual items that might appear in the respective financial statements.</p> <p>Paragraph 2.2 notes that Government engages “in many commercial transactions of an exchange nature that are the same or similar to those in the private sector” including “the delivery of goods and services from private sector suppliers, such as the construction contracts, remuneration for employees under the terms of employment contracts, and borrowing and lending on money markets.” This is an example of seeking out similarities with the private sector but results in focusing attention on the form rather than the substance of transactions. The substance of all the above transactions is to provide goods and services to the public on a non-exchange basis. Accounting standards must be based on principles that reflect the substance of the issues and should not be influenced by the form of the transaction.</p> <p>A case is sometimes made that comparison with the private sector is necessary to facilitate the comparison of individual government organizations with similar private sector organizations. This logic is flawed because the only basis for which comparison with the private sector would be valid is when a government organization receives revenue from the public via “exchange based transactions”, in which case, in all probability, it would be a government business enterprise (GBE) and would be following IFRS and comparability would be achieved. All other government organizations (non-GBEs) are essentially non-exchange service provision vehicles or administrative extensions of their respective ministries. It is important to ensure that public sector accounting standards are written with the government summary (consolidated) financial statements as the primary model which will also be followed by subordinate government organizations. Public sector accounting standards should not be written from the perspective of individual government organizations and imposed upwardly on the parent government.</p> <p>All public sector standard setters need to justify their standards for Government accounting from scratch without reference to the private sector. The Province is concerned that frequent reference to the private sector at a micro level may create an aura of comparability when one does not exist and may facilitate the consideration or application of a private sector approach to accounting for an item with a name common to both sectors without regard for the respective substantive reasons for owning the item or the purpose to which it is put. Therefore, an asset is an asset is not a valid perspective.</p>	



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	<p><b><u>Government's Accountability</u></b></p> <p>Paragraph 1.2 refers to government being accountable to a legislative body (or equivalent). The Province believes that it is accountable to all of the people; taxpayer or not, bondholder or not, wealthy or homeless, male or female; all in equal measure. Our financial statements are published on our website. Our financial statements are tabled in the legislature and discussed in the Public Accounts Committee but this is in the context of the members of the legislature acting in their capacity as elected representatives of the people. The Province believes that it is accountable to the people and as part of that process government meets with a select group of their elected representatives to answer their questions.</p>	
036	<p><b>The diversity in the public sector</b></p> <p>The expression <i>Public Sector</i> covers a great diversity that is not brought out in the ED:</p> <ul style="list-style-type: none"> <li>• Different sizes of the governments from a few dozen inhabitants up to several ten or hundreds of thousands;</li> <li>• Different economic and social development;</li> <li>• Different financial and asset position (<i>financial significance</i>);</li> <li>• Different types of units (governments, other entities);</li> <li>• Different financing sources (taxes, fees, sales, transfers, financial income);</li> <li>• Different co-determination possibilities of the citizens (e.g. direct democracy).</li> </ul> <p><b>Tasks of the public sector</b></p> <p>In many cases the public sector is entrusted with tasks imposed by the legislative. For such tasks frequently no private providers can be found or they are not willing or in a position to provide the services demanded for the public in an adequate manner and at sensible prices. Typically these services may include (not exhaustive, see also COFOG):</p> <ul style="list-style-type: none"> <li>• Welfare (old age care, health, poverty)</li> <li>• Transport (rail and road infrastructure)</li> <li>• Education, research (educational level, research location)</li> <li>• Internal and external security</li> <li>• Foreign relations</li> </ul>	<p>Many of the items identified under “diversity” have been addressed in the ED.</p> <p>Size of entity and different financial and asset position are not different from the private sector.</p> <p>The co-determination policies are not in staff's view, a characteristic that would affect financial reporting.</p> <p>Staff does not consider it necessary to identify the public sector tasks noted by the respondent. They are not necessarily determinants of accounting issues. Staff considers the issues arising from them are addressed in the ED.</p>
037	<p><b><i>Inclusion of GBEs in scope</i></b></p> <p>HoTARAC notes that, contrary to the scope of existing IPSASs and the IPSASB's proposed Conceptual Framework, the scope of this exposure draft appears to include Government Business Enterprises (GBEs) – refer to paragraph 1.3 in the exposure draft. Given the characteristics of GBEs are more consistent with private sector for-profit entities, HoTARAC</p>	<p>The ED noted that the public sector includes GBEs, which is an accurate statement. It was not intended to suggest that the IPSASB intends that GBEs should be brought within the scope of IPSASs. An earlier draft also</p>

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	strongly recommends that the IPSASB clarify its intentions about dealing with GBEs, and be consistent throughout all its pronouncements. In this regard, HoTARAC does not support GBEs adopting accounting treatments that differ from the private sector International Accounting Standards Board's pronouncements.	stated that GBEs generally use the same standards as commercial private sector entities. This allusion was deleted during the latter stages of development. The IPSASB approved a project on GBEs at its December 2011 meeting. Specific issues related to GBEs will be considered in that project.

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
001	<p><i>Refer to Para. 2.3</i></p> <p>This paragraph focuses on the performance of an entity in the context of its service delivery objectives, and has been included under the heading of “The Volume and Significance of Non-exchange Transactions”.</p> <p>An entity’s performance in terms of its service delivery objectives is critical to all services provided by an entity, some of which may result from exchange transactions. As a result of the importance of performance reporting and, the fact that this has been identified as a key information area by the IPSASB, it warrants greater prominence in this Paper.</p> <p>Part (a) of this paragraph refers to whether an entity has provided services in an efficient and effective manner. It might be useful to add to the beginning of the sentence “The quantum of services provided and, whether the entity has provided its services in an efficient and effective manner.”</p> <p><i>Refer to Para. 2.8</i></p> <p>Paragraph notes that “Economic theory suggests that governments have a major role in providing public goods (also called social goods).” This paragraph then goes on to explain that (a) consumption of the goods by one individual does not reduce their availability for consumption by others and (b) individuals cannot be effectively excluded from consuming the goods.</p> <p>We contend that there is in fact a difference between public goods and social goods, although the opening sentence of this paragraph suggests that they are one and the same thing. While the consumption of public goods by one person does not reduce their availability of others (e.g. parks, defence and policing), the availability of social goods can be reduced as they are consumed by others, e.g. healthcare and education.</p> <p>As a result, we suggest deleting the wording “also called social goods” in the opening sentence.</p>	<p>The IPSASB’s project on <i>Reporting Service Performance Information</i> deals in depth with this topic, and thus staff does not consider it necessary to expand significantly on the level of detail in this document.</p> <p>It might be worth including a reference to expenditure on specified services.</p> <p>Staff will consider these terms further in developing the ED, and, in particular, whether they should be used interchangeably.</p>
002	<p><i>Refer to Para. 2.1</i></p> <p>The government doesn’t generate profit but does generate value.</p> <p>Government systems generate continuing value because the tracking mechanisms become predefined and needn’t be extensively recreated over time. Government infrastructure projects generate cash flows over future decades of use and utilization fees. The Great Wall of China generated value over the centuries once it was built because marauders were kept at bay. Today, solar energy panels could be built along the Great Wall to generate value for decades to come.</p> <p>Combination technologies like solar and desalination plants could generate value into the</p>	<p>Noted – the proposed definitions of asset and liability include “service potential”.</p>

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
	<p>future by putting into place enhanced water capabilities for human and farm use.</p> <p><i>Refer to Para. 2.1 to 2.7</i></p> <p>Current taxes are a source of revenue. Excess consumption taxes are both a source of revenue and a "carrot and stick" approach. This approach tends to discourage behavior that is inimical to the public health or interest.</p>	
004	<p><i>Refer to Para. 2.3</i></p> <p>The needs of users of public sector financial reports should be exhaustively described. Among the examples cited, we note that the need "Has the entity provided its services in an efficient and effective manner?" is too broad in coverage and exceeds the scope of accounting.</p>	<p>The information needs of users are dealt with in CF—ED1.</p> <p>Consistent with the analysis in CF—ED1 Staff considers that it is likely that users need information on service performance.</p>
005	<p>We concur that the high incidence of non-exchange transactions is a feature of the public sector that currently distinguishes it from the commercial sector. However, we note that revenue recognition under International Financial Reporting Standards is moving to the concept of performance obligation; the distinction between exchange and non-exchange transactions will therefore diminish in future.</p> <p>We would therefore stress the third paragraph of this Section (i.e. that the primary objective of public sector entities is to deliver goods and services and not to generate profits), rather than the first two paragraphs.</p> <p>We would add that, in addition to non-exchange transactions, the public sector also has more examples of exchanges of assets with approximately equal value, which result in little or no change in the economic status of either entity. Two examples of such exchanges are:</p> <ol style="list-style-type: none"> <li>1 Exchanges of parcels of land between an urban public sector agency and a developer, enabling the agency to obtain land in a blighted area in order to redevelop it; or</li> <li>2 Exchanges of artifacts between museums.</li> </ol> <p>Whilst we concur with the questions listed in Section 2.3, we would add the following to the list:</p> <p>"Was the entity's ability to provide services greater or less than had been anticipated in its budget and work plan?"</p> <p>Section 2.8 describes public goods (also called social goods). We concur with the definition but we would add the following additional factors:</p> <ul style="list-style-type: none"> <li>• Some business models in the commercial sector include assets that are public goods, as defined here. One example is open-source computer coding (e.g. Linux); and</li> <li>• Some public goods have competing uses, where the consumption by one set of users can impair the consumption by another. For example, national parks can be used for</li> </ul>	<p>While some consider that a dichotomy between exchange and non-exchange transactions is redundant, others consider that it may lead to differing accounting approaches in areas such as the definition of a liability. Staff continues to monitor the IASB's Revenue Recognition project and IPSAS 9, <i>Revenue from Exchange Transactions</i>, will probably be re-evaluated in the light of a new finalized IFRS, but this does not mean that approaches in such an IFRS will be adopted for non-exchange revenue.</p> <p>Staff notes the view that exchanges of assets with approximately equal value are more common in the public sector, but is not sure what evidence exists to support this assertion.</p> <p>Staff notes that the list in paragraph 2.3 was not meant to be exhaustive..</p> <p>Staff agrees to consider the usage and definition of the term "public good".</p> <p>This is an interesting observation and it may be possible for private sector entities to provide public goods for</p>

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
	conservation, research or public recreation. However, if one of these uses is given clear priority, it will reduce the use for other purposes.	altruistic reasons. However, staff does not think that provision of such assets by non-public sector entities is a common occurrence.
007	<p><i>Refer to Para. 2.3, concerning the broader information needs for users of financial reports of public sector entities than users of financial reports of private sector entities.</i></p> <p>In general the users of financial reports of public sector entities have a broader information needs than users of financial reports of private sector entities, where key issues are the return to investors and the ability to meet obligations to creditors. For the public sector the principles first and foremost should serve to assess the resource and target fulfilment.</p> <p><i>Refer to Para. 2.5 to 2.6, concerning tax raising powers.</i></p> <p>In this connection we find cause to note, that we in “the Danish system” do not include public sector rights as those associated with the power to pay tax in our financial statements. In the same way we do not include public sector entity obligations such as those associated with its duties and responsibilities as a government.</p>	<p>The information needs of users are dealt with in detail in CF—ED1. This paper does not need to provide additional detail.</p> <p>The approach is noted. Public sector powers and rights are considered in the context of asset and liability definitions in CF Phase 2 and do not suggest a change to this ED.</p>
009	<p><i>Refer to Para. 2.1 to 2.2</i></p> <p>Paragraphs 2.1 and 2.2 of the Exposure Draft underline the importance of non-exchange transactions for public entities, and explain that one of the roles of public entities is to provide goods and services without a profitability objective. The Council agrees with these two characteristics. Nevertheless, it is also essential to point out that the primary objective of public entities is to define and implement public policies. Lastly, it is important to remember that public action is funded by taxation, which concerns all citizens.</p> <p>Moreover, it should be emphasized that decisions taken by public entities have a mandatory nature for citizens, which is a major distinction from the private sector which operates according to a contractual model on a voluntary basis.</p> <p>Lastly, the Council agrees with the Exposure Draft that the conduct of missions of public service and the importance of non-exchange transactions give rise to specific reporting requirements. However, the Council wishes to stress, as in its replies to the previous consultations on the Conceptual Framework for Public Entities, that where this information is not of an accounting nature it should be presented in an additional report outside the financial statements.</p>	<p>These features were noted in the ED. (e.g., para. 2.2).</p> <p>Staff notes that the mandatory nature of public sector non-exchange transactions further distinguishes them from private sector non-exchange transactions.</p> <p>Comment on general purpose financial reports other than the financial statements (CF Phase 1).</p>
009	<p><i>Taxation and Other Non-Exchange Transfers</i></p> <p>We have no particular comments on the description set out in the paragraphs on</p>	The term ‘contractual’ was deliberately avoided. Staff considers that the term

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	<p>taxation, other than to stress the importance of the social role of central government.</p> <p>The Council also wishes to draw attention to the fact that the elements mentioned in paragraphs 2.5 and 2.6 are particularly important because of the substantial amount of funding by transfers.</p> <p>On this subject, paragraph 2.6 stipulates that transfers to entities that have limited or no capacity to raise taxation are of a quasi-contractual nature; the Council believes that the term contractual is inappropriate, and that it would be more correct to say that the transfers represent “binding commitments”.</p>	<p>‘quasi-contractual’ is concise and appropriate.</p>
013	<p>There is inconsistency within the exposure draft about whether the term ‘public sector’ encompasses only not-for-profit entities or whether it includes both for-profit and not-for-profit entities. Paragraph 1.3 states that “they (other public sector entities) may be profit seeking or have a financial objective to break even”. However, paragraph 2.3 notes that “the primary objective of public sector entities is to deliver goods and services and not to generate profits”. ACAG suggests removing the inconsistency and clearly defining what the term encompasses.</p>	<p>Staff agrees that a clarification of the definition of “public sector” is necessary. This might be effected by a footnote.</p> <p>However, it is noted that while a GBE is a public sector entity, it at least aims to break-even and may be profit seeking.</p>
014	<p>The material in paragraph 2.2 after “...money markets.” can be deleted.</p> <p>The document needs to reflect the fact that financial reporting may provide accountability on the performance of governments and politicians, and does not only provide information for politicians. The bullet point list at 2.3 might therefore include:</p> <p>Has the entity provided services or achieved results in line with public promises or agreements by government or the management of the entity?</p> <p>The final sentence of paragraph 2.4, and all of paragraph 2.5 can be deleted.</p> <p>Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:</p> <p>International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.</p> <p>and</p> <p>The significance of taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework, such as the definition of assets and liabilities.</p> <p>As redrafted, the second paragraph makes a very general point and might be better placed elsewhere or otherwise highlighted.</p> <p>The discussion in para 2.8 of ‘public goods’ uses a very specific meaning which is not used by all economists, and so might be incorrectly seen as equating non-excludable or ‘pure’ public goods with public sector provision, without remarking on wider public goods such as</p>	<p>Staff disagrees with the deletion of the last sentence of paragraph 2.4 because it explains why non-exchange transactions are a distinguishing feature of the public sector.</p> <p>Staff agrees to consider the definition of, and usage of, the term “public good”.</p> <p>Specific drafting comments will be considered in the context of the IPSASB’s decision on how the material should be published (SMC2).</p>

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	<p>breathable air. It also characterises government intervention as arising from a particular economic view of the objective of government: it might be better to reflect on the fact that many governments provide services. <u>The first half of the paragraph might therefore be deleted.</u> The remaining text might more directly address existing practice, for example:</p> <p>Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not provided by other entities, e.g., welfare programs, or because it is not considered appropriate for them to be provided through competitive market mechanisms on public policy grounds, e.g., policing and defense.</p> <p>Para 2.9 mainly echoes material in other sections and can be deleted.</p>	
015	<p><i>Paragraph 2.2.</i> The assessment, made by public entities, of the need to undertake activities to provide goods and services in a non-exchange environment and of its capacity (financial, operational, etc.) to do so should include also consideration of standard costs of inputs to be used.</p> <p><i>Paragraph 2.3.</i> The following letter d1) should be added: “Did part of the burden of paying for current services restrict expenditures for other specified uses (especially investment expenditures)?”</p> <p><i>Paragraph 2.9.</i> The paper underlines the importance of taxation or contributions to determine the level and the quality of publicly provided goods and services. Reference should be made to the growing relevance of contributions requested to citizens/users (particularly within the public health system) via tickets or other forms of participation to public expenditures, with the effect of making the behaviour of public agent similar to the private one.</p>	<p>Staff considers the comment on para. 2.3 to be addressed in item f dealing with restrictions.</p> <p>Staff considers the comment on para. 2.9 is addressed in the second sentence referring to charges, fees and contributions.</p> <p>The impact on behaviour is not within the scope of this document.</p>
018	<p>Provision of goods and services in a non-market or limited market environment, para 2.8</p> <p>The indivisible nature of public services and goods poses challenges in financial accounting and guidance could be given in the supplement while adopting full accounting on the accrual basis.</p>	<p>Staff considers this to be a standards-level issue.</p> <p>The IPSASB has a current project to provide guidance on first time adoption.</p>
021	<p>Section 2 provides an example to illustrate this point. Paragraph 2.4 states that taxation is “a legally mandated involuntary transaction between individuals or business entities and the government”. Subsequent paragraphs discuss only which type of public sector entities may have the power to tax and which do not and are therefore reliant on intergovernmental transfers, etc. In our view, this information is too general to give a balanced picture of the implications for financial reporting, particularly as it could be read as implying that there is always an unlimited power to tax.</p> <p>Similarly, the discussion of non-exchange transactions in paragraphs 2.8 and 2.9 is too generalized to allow readers to appreciate the full potential impact on financial reporting in the public sector. In particular, some features of certain transactions in the private sector may appear to have non-exchange elements similar to those found in the public sector (e.g.,</p>	<p>Staff disagrees with the suggestion for paragraph 2.8 and 2.9. In the public sector, it would be determined whether a transaction is exchange or non-exchange. The example provided would seem to be a substance over form issue in which the nature of the transaction would need to be examined in its entirety. In addition, such transactions are still voluntary rather than mandatory, which creates a difference</p>

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	incentives, to which – in the private sector – IFRS revenue recognition provisions apply). Just as public sector entities may decide whether to fully fund particular schemes and not others, there may be decisions in the private sector to use loss leaders or subsidized prices. It would be helpful for the exposure draft to point out where the differences are in this respect and what factors might need to be considered in determining whether similar accounting treatment may or may not be appropriate in the public sector.	in substance.
022	<p>In paragraph 2.3, add the following questions:</p> <ul style="list-style-type: none"> <li>i. Are sufficient liquid assets available to meet current liabilities?</li> <li>ii. Is the fiscal policy sustainable for future generations?</li> <li>iii. Are revenue raising and expenditure strategies convergent with the policy goals of the entity, e.g. equity, income redistribution, social welfare, etc?</li> </ul>	Staff notes that the list provided by the respondent may not be complete and may overlap with some of the items in para. 2.3; however, the suggestions will be considered in revising the ED.
023	<p>I do not find this criterion very satisfactory.</p> <p>There are many non-exchange transactions in the private sector:</p> <ul style="list-style-type: none"> <li>• Taxes. The ED mentions that taxation is a major public sector non-exchange transaction. However, most private sector entities pay tax – this is also a non-exchange transaction. In aggregate the sum of tax revenue equals the sum of tax paid – so it is not clear to me that the volume or significance of tax is greater for public sector. It might be argued for small private sector entities tax is more material.</li> <li>• In a group situation, intra-group transactions have the potential to be non-exchange transactions because the parent has control.</li> <li>• The description in 2.2: “A public sector entity must constantly assess the need to undertake activities to provide goods and services in a non-exchange environment... Such an assessment includes consideration of factors such as the governing legal framework, the cost, quantity and quality of goods and services provided and the outcomes of key programs”. This description would also be true for private sector entities that make donations, undertake sponsorships and for some exchange transactions (e.g., advertising).</li> </ul> <p>Paragraph 2.3 states “the primary objective of public sector entities is to deliver goods and services and not to generate profits.” But private sector entities also have to consider the quality, quantity, price and timeliness of goods and services <u>AND</u> make a profit.</p> <p>Private sector entities also need information to answer the questions in 2.3 (a) to (f). This list equally applies to private sector entities.</p> <p>If the difference between private and public sector entities is based on volume or financial significance, then the issue is one of materiality. While there are transactions that might be more material for public sector than private sector, I do not see these as being solely the domain of public sector. I acknowledge that <u>current</u> IFRS might not provide high quality</p>	<p>It is noted that from the point of view of government, the non-exchange transactions may also involve other levels of government and individuals (e.g., transfers). As such, the comment about equality may apply only to taxes and not to non-exchange transactions as a whole.</p> <p>The primary objective of commercial private sector entities is to make a profit. Staff accepts that in order to do so they have to consider the factors mentioned.</p> <p>Staff acknowledges that the questions in 2.3 may be relevant to users of private sector financial reports, but they</p>



R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
	<p>solutions for these transactions. However, the IPSASB should treat these transactions as lower order issues and try to influence IFRS. That is, the primary focus of the IPSASB should be on issues that are fundamental to the public sector (and public benefit entities in particular).</p> <p><b>Taxation and other non-exchange transfers</b></p> <p>The power to tax is a distinguishing characteristic of a public entity. However, unless the IPSASB is seriously considering reporting this as an 'asset', then it is not clear why this is important for public sector financial reporting.</p> <p><b>Provisions of goods and services in a non-market or limited-market environment</b></p> <p>I think this heading is misleading. Private sector firms deal in non-market and limited market transactions all the time. Most manufacturing firms or long-term construction projects have transfers between departments or subsidiaries, which are non-market transactions.</p> <p>I suspect the limited-market issues is really a subset of the non-cash generating nature of public sector assets. For example, determining fair value for non-cash generating assets when there are no market transactions.</p> <p>However, the public or social good nature of public sector activities is a characteristic that potentially gives rise to different accounting issues.</p>	<p>arse second order in comparison with information on returns to investors.</p> <p>Phase 2 of the CF is considering whether the power and right to tax is an asset. While the tentative view is that the right to tax only gives rise to an asset when exercised, some consider that the right to tax is an asset and exercising that right is a recognition criterion.</p>
026	<p><b>Paragraphs 2.2, 2.4 and 2.7</b></p> <p>Paragraphs 2.2 and 2.4 introduce the concept and build the discussion on associating private sector with voluntary revenues and transactions and public sector with funding received through involuntary transfers. Although the latter is applicable to governments, this association is not universal for the public sector. Many public sector organizations are funded by voluntary contributions from donors, including the United Nations System organizations. Some organizations in the United Nations System are funded fully by voluntary transfers. The Task Force suggests that corresponding parts of the Exposure Draft be re-examined regarding the association between involuntary transfers and public sector. Similarly, paragraph 2.7 acknowledges potential implications of reliance on taxation and other involuntary transfers but does not recognize implications of non-exchange voluntary transfers on financial reporting.</p> <p><b>Paragraph 2.3</b></p> <p>When defining needs of users of public sector entities, more dimensions might need to be considered, including, but not limited to evaluating performance towards achieving objectives set out for the period.</p>	<p>Staff agrees that, although they are mentioned, voluntary non-exchange transfers should be given more prominence</p> <p>Staff considers this issue (2.3) is addressed in the IPSASB's project on <i>Reporting Service Performance Information</i>.</p>
028	<p>Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:</p> <p><i>International organizations are also largely funded by non-exchange revenue transfers.</i></p>	<p>Staff agrees that these drafting suggestions are useful.</p>

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R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
		accounting standards.
031	(b) The service provision (versus profit motive) of public sector entities has a number of potential implications for what is reported in financial statements and other financial reports – such as those set out in Exposure Draft paragraph 2.3.	Respondent agrees with list in paragraph 2.3.
031	(c) There may also be a third characteristic buried in the discussion of non-exchange transactions – the re-allocation of resources. The re-allocation of resources, primarily through transfers, is another objective in the public sector and it might have both accounting and reporting implications. Transfers have accounting implications – a special standard on non-exchange revenue in IPSAS 23 deals with the recipient side of this re-allocation. The transferor side has yet to be addressed. The re-allocation of resources might also have reporting implications – for example disclosure of expenses by object of expense would highlight the extent of these re-allocations.	Comment noted. The IPSASB has a project on its project list to address the issues related to IPSAS 23 (including those noted by the Respondent). Paragraph 2.6 discusses transfers from other levels of government.
031	(d) Fourth, the provision of goods in a non-market or limited market environment probably should be identified separately as a key characteristic. No competitive market for most government outputs means that there is no independent indication of their value. And many of the services provided by government are unlikely to be provided by anyone else, such as welfare and defense. The benefits of government services cannot be measured solely by a bottom line that shows net revenues or expenses. The implications of characteristic are likely that: <ul style="list-style-type: none"> <li>The net cost of services and affordability of services need to be reported/ disclosed, but these are not enough to show the efficiency and effectiveness of government services.</li> </ul> Performance measurement information is needed, too. There is no one measure of government performance. Non-financial performance measures are also needed.	Staff considers these implications to be addressed in other projects such as service performance reporting. The issue of non-market transactions is acknowledged as a separate topic under non-exchange transactions.
031	(e) Public sector entities also have an objective of policy development (similar to strategic planning for a business) to manage issues arising or expected to arise in the jurisdiction. Some of these policies, such as fiscal and monetary policies and foreign affairs, will transcend the service provision and/or resource reallocation orientation of most government activities. This objective is not set out in the Exposure Draft and yet all governments will have this objective as will some government organizations. Each of these sub-characteristics may have individual accounting and reporting implications. In our view these will be easier to interpret and understand if they are set out, described and explained separately (see response to Specific Matter for Comment 2 – suggested table).	Staff does not consider policy development to have a direct impact on financial reporting.
032	Concerning the features of public sector activities, the DGFIP wishes that the ED stresses the following topics : <ul style="list-style-type: none"> <li>The purpose of public entity policy, which consists primarily in defining policies funded by</li> </ul>	Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
	<p>public contributions, their strategy and their objectives.</p> <ul style="list-style-type: none"> <li>- The compulsory and sovereign nature of decisions taken by public entities both towards citizens and other legal entities. Public entities rely on the sovereign right to raise taxes to fund public policies. <u>The private sector differs from the public sector since it is based on a contract binding free counterparts.</u> [emphasis added by staff]</li> </ul> <p>Concerning the specific needs in terms of financial reporting generated by the implementation of public policies and the volume of non-exchange transactions, the DGFIP considers that prospective information based on estimations should not be integrated in financial statements (balance sheet, statement of financial performance, notes to the statements) of public sector entities, since they have no accounting ground.</p>	<p>Paragraph 2.1 stated that “in the private sector the large majority of transactions are of a voluntary exchange nature.”</p>
033	<p><b>Overstated distinctions</b></p> <p>The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities. For example:</p> <p>the basis for the assertion implicit in paragraph 2.3 that information about service performance is not relevant in respect of a private sector for-profit entity is unclear, particularly because most of the information needs itemised in paragraph 2.3 of the ED are similar or equivalent to information needs of users of financial reports of for-profit entities. In particular:</p> <ul style="list-style-type: none"> <li>(i) only paragraph 2.3(d) has no private sector (for-profit) equivalent—and it is only a reformulation of the universal issue covered in paragraph 2.3(c); and</li> <li>(ii) the only other identified information need particularly affecting the public sector is information about restricted-use resources [referred to in paragraph 2.3(f)], the existence of which would generally be more prevalent in the public sector than the for-profit private sector;</li> </ul> <p>(An analysis of whether the information needs set out in sub-paragraphs (a) – (f) of paragraph 2.3 are public-sector-specific is set out in Appendix B.)</p>	<p>Staff accepts the point that a number of the characteristics highlighted exist in the private sector. However, Staff considers that the prevalence and significance of such characteristics is greater in the public sector e.g., non-exchange transactions.</p> <p>Staff is not suggesting that the examples of information needs provided in paragraph 2.3 are insignificant in the private sector and acknowledges that there is a growing emphasis on areas such as corporate social responsibility. However, Staff thinks that the assertion that the key issues in the for-profit private sector are returns to investors and the ability to meet obligations to creditors is valid.</p>
033	<p><i>Analysis of Whether the Information Needs in Paragraph 2.3 are Public-Sector-Specific</i></p> <p>2.3(a) Users of financial statements of any entity are interested in whether an entity operates in an efficient and effective manner. Given that many for-profit private sector entities provide services to customers, the reference to providing services also does not indicate a sector-specific difference. Whilst public sector not-for-profit entities and private sector for-profit entities would generally have different objectives for providing services, both types of entity would aim to do so efficiently and effectively. For these reasons, paragraph 2.3(a) does not appear to identify a sector-specific issue.</p>	<p>The fact that the primary objective of most public sector entities is the delivery of goods and services, rather than the generation of profits, means that information on the efficiency, effectiveness and, where possible, outcomes of service delivery is especially important in evaluating performance.</p>

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
033	2.3(b) Users of financial statements of any entity would be interested in how an entity financed its activities and met its cash requirements. Therefore, paragraph 2.3(b) does not identify a sector-specific issue.	Staff considers that how an entity financed its activities is particularly significant in the public sector e.g. from internally generated resources or from transfers from other levels of government. For example, such information indicates how vulnerable a reporting entity is to the spending decisions of other bodies.
033	2.3(c) Except for its reference to ‘taxation’ (which is only an example of the revenues being referred to), paragraph 2.3(c) does not identify a sector-specific issue. Users of financial statements of any entity providing services would be interested in whether current-period revenues covered the cost of providing current-period services.	Staff considers that the extent to which future taxpayers will have to meet the cost of goods and services provided in past reporting periods is of particular importance in the public sector. Unlike the private sector many resource providers in the public sector are involuntary. Staff agrees that paragraphs 2(c) and 2 (d) could be combined.
033	2.3(d) Whether part of the burden of paying for current services is shifted to future-year taxpayers has no private sector (for-profit) equivalent. However, it is only a reformulation of the universal issue covered in paragraph 2.3(c). In other words, the same financial information would be provided to meet the objectives in paragraphs 2.3(c) and 2.3(d). Therefore, paragraph 2.3(d) does not identify a public-sector-specific need for different information than that reported by a private sector for-profit entity.	See staff comments on item 2(c).
033	2.3(e) Whether a service provider is a public sector not-for-profit entity or a private sector for-profit entity, information about changes in its ability to provide services would be useful to users of its financial statements. The fact that providing services is a primary objective of public sector entities but arguably only a means to an end (generating net cash inflows) for private sector for-profit entities does not affect the relevance of the information in either sector. For example: (a) in both sectors, an entity recognises its resources (stores of service potential) and not future cash inflows (except those to which it is presently entitled); and (b) if a private sector for-profit entity’s capacity to provide services diminishes, so does its capacity to generate net cash inflows. Therefore, paragraph 2.3(e) does not identify a sector-specific issue.	Staff acknowledges this point and thinks that paragraph 2(e) could probably be deleted. However, the primary users of financial reports in the public sector will be particularly interested in the extent to which the volume and quality of services have increased or decreased in the reporting period.

R#	COMMENTS ON SECTION 2 – THE VOLUME AND FINANCIAL SIGNIFICANCE OF NON-EXCHANGE TRANSACTIONS	STAFF COMMENTS
033	<p>2.3(f) Restrictions over the use of resources arise for some private-sector for-profit entities in relation to borrowing covenants, prudential oversight or heritage-listed features of occupied buildings. However, such restrictions would generally be more prevalent in the public sector than the for-profit private sector. Therefore, the issue in paragraph 2.3(f) could be viewed as a public-sector-specific issue.</p>	Respondent agrees with ED.
033	<p>Refer to Para. 2.1 In the fourth sentence, “approximately equally value” should be “approximately equal value”. In the fifth sentence, last line, “approximately” should be inserted between “receiving” and “equal value in exchange”. Refer to Para. 2.2 AASB staff suggest inserting “, such as the payment of taxes” at the end of the first sentence. This would acknowledge that, whilst ‘non-exchange transactions’ are more limited in the private sector, particular non-exchange transactions of private sector entities may be significant in amount.</p>	Agree with the proposed edits.
035	<p><b><u>Information Needs of the Public</u></b> Paragraph 2.3 raises an important issue regarding the definition of the information needs of the public. That paragraph seeks to define what the information needs of the public are. The Province has two concerns in this regard. First, IPSASB makes no reference to any survey or communication with the primary user of public sector financial statements, which is the public, and is therefore speculating about what the public wants. In some cases a government organization will be established by legislation, in which case, the legislation may specify what accounting standards the entity will follow. In effect, this is the people through their elected representatives deciding what level of disclosure they feel is appropriate for their needs. Secondly, standard setters need to be conscious of the difference between producing a public good in the form of accounting standards and seeking to establish themselves as protectors of the public interest by presupposing what the public needs. Under Canada’s Constitution only the federal Parliament, Provincial/Territorial Legislatures and the Supreme Court have authority to protect the public interest. Parliament and Legislatures can delegate authority to protect the public interest via specific legislation to entities such as the Securities Commission and other regulatory boards etc. In Canada, no such authority has been delegated to any accounting standard setting body. There are many examples demonstrating the Legislature’s ability to establish disclosure standards in the public’s interest including legislation and regulations that determines disclosure requirements for both publically listed corporations and for privately held companies/partnerships. The Province adheres to legislation, passed by the people’s elected representatives, setting the accounting standards it will follow, subject to regulations that legislation decrees may be set by the Treasury Board.</p> <p><b><u>Non-Exchange Transactions</u></b></p>	<p>These points are acknowledged. The absence of survey information on user needs has been highlighted in IPSASB deliberations on a number of occasions. IPSASB has never challenged the sovereign power of government to determine accounting arrangements.</p> <p>The information needs of users are dealt with in Phase 1.</p>

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## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
005	<p>Further differences between the public and commercial sectors are that:</p> <ul style="list-style-type: none"> <li>In the commercial sector, income and expenses are closely related. An entity incurs expenses in order to generate income; some of this income is then used to pay for further expenses, which in turn generate additional income. (Some expenses are not intended to generate income in the current period, but are important for the growth and development of an entity – e.g. research and development, marketing, etc.) In the public sector, income and expenses are often unrelated activities below the ‘whole of government’ level of reporting and, as a result, the budgets for income and expenses are often unlinked; and</li> <li>In the commercial sector, organizations incur expenditure on fixed assets (tangible or intangible) in order to generate additional income; the budgets for such assets need to assess whether they will generate sufficient income to justify their costs. In the public sector, expenditure on fixed assets usually leads to additional running costs; the budgets for these assets need to include such costs and the assessment is normally whether the assets will generate sufficient services to justify their cost (capital expenditure and running costs).</li> </ul>	Staff acknowledges these points, but does not consider that the mechanics of the budget need to be explained in the ED.
007	<p><i>Refer to Para. 3.1</i></p> <p>In Denmark the licensing system and the connected budget is the central tool to the economic management of public sector entities – and the reporting of the financial results will relate to the original budget.</p>	Noted
007	<p><i>Refer to Para. 3.1</i></p> <p>“Most governments and other public sector entities prepare annual financial budgets covering areas such as revenue and capital spending. Entities may also develop budgets covering longer time scales and possibly also shorter time periods (eg quarterly budgets etc. used for monitoring and internal control)”. This has special relevance to situations, where the respective entities have an ongoing focus on internal budgetary control in a context with financial management.</p>	Noted
009	<p>The Council shares the point of view expressed in the Exposure Draft in relation to the importance of the budget, which, in public entities, is approved by a deliberative body and is of a binding nature.</p> <p>The Council is reflecting on the links that should exist between the budget and the financial statements and is of the opinion that further thought should be given to the issue of how budget execution reports link with the financial statements.</p>	Respondent agrees with ED.
013	<p>Take “the importance of the budget” for example. ACAG do not see the budget as an inherent characteristic of the public sector that “has implications for financial reporting” as it is a form of</p>	Staff disagrees with the Respondent’s comment on paragraph 3.1. The ED



R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
	<p>financial reporting itself. That is, it is a response to certain public sector characteristics and it is those underlying characteristics that we assume the paper wishes to identify. To do that, a consideration of the more detailed discussion in Section 3 “The Importance of the Budget” is useful:</p> <ul style="list-style-type: none"> <li>• <b>paragraph 3.1:</b> ACAG suggest that the key characteristic here is not the budget itself but the fact that financial information is generally more available in the public sector compared to the private sector because of the commercial confidentiality aspect</li> <li>• <b>paragraph 3.2:</b> ACAG suggest that it is not the budget which is the characteristic, but the Appropriations system (or its equivalent) of which the budget is simply a component</li> <li>• <b>paragraph 3.3:</b> purely in terms of assessing actual results against planned results we doubt that a public sector budget is more important than a private sector one but, if it is, then one might say that the “characteristic” is that users of public sector financial information place greater emphasis on the ability to compare actual results with planned results.</li> </ul>	<p>has commented that the budget is important because it is publicly available and because it is necessary for accountability.</p> <p>Staff considers that the budget is the key component of the appropriations system and therefore a key accountability mechanism.</p> <p>Staff proposes redrafting the first sentence in paragraph 3.3:</p> <p>“The budget is significant in the public sector because it helps users assess actual revenues and expenses and the resulting budgetary surplus or deficit for the reporting period against budget estimates. This is important in determining how well a public sector entity has met its financial objectives.”</p>
014	<p>Generally this section should be more concise. In particular para 3.3 mainly states that budgetary comparison is important and relevant to financial reporting and could be rendered more concisely as follows:</p> <p>Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.</p>	<p>Noted. Staff will consider this and other drafting points when revising the paper. Agreement with inclusion in ED is noted.</p>
015	<p><i>Paragraphs 3.2 – 3.3.</i> Although one can agree on the importance of the budget for the assessment of the actual results, attention should be paid both to the progressive loss of planning significance of such document and to the need to consider also budgets and results of specific private entities set up by public entities to which they partially entrust their functions.</p>	<p>Staff acknowledges the risks to accountability of special purpose vehicles that are “off-budget”. The focus of the ED is on budget reporting and it is not considered appropriate to provide a detailed discussion of a range of budget issues. Agreement with inclusion in ED is noted.</p>
018	<p>Budget – the budget is widely recognized as a useful tool for planning and expenditure control in the public sector. Preparation of the budget on the accrual basis could be a good starting point towards IPSAs adoption and examples can be discussed in the supplement guidance.</p>	<p>Staff agrees with the respondent’s support of accrual-based budgeting.</p>

R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
022	At the end of the first sentence to paragraph 3.3, add (i) financial objectives “to maintain fiscal discipline” and (ii) “to contribute to the policy goals of the entity”.	Staff does not consider it necessary to add the additional text as it doesn't have a direct impact on financial reporting.
023	The fact that the budget is used for setting taxation levels indicates that the <i>objective of financial reporting</i> might be different for public sector entities. For a private sector entity the setting of service and product prices is not (typically) based on the reported financial statements, but on supply and demand. This suggests the main function of reporting actual results in the public sector is the comparison with budget. Hence, the main qualitative characteristic of public sector financial statements is that they are prepared on the same basis as the budget. However, in setting the budget it is not clear that private sector qualitative characteristics or accounting standards will be the most suitable for public sector entities. This is because the main objectives of budget reporting in the public sector (stewardship) and reporting of actual results in the private sector (resource allocation) might be different.	Staff supports the preparation of the budget and financial statements on the same basis. Staff agrees that this can enhance comparability but disagrees that the preparation of the financial statements on the same basis as the budget is a QC in itself. Staff notes it is important for accountability to compare actual results against budget. with the budgeted amount. The IPSASB has argued for greater convergence between financial reporting and budget accounting.
028	Generally this section could be more concise. In particular paragraph 3.3 states that budgetary comparison is important and relevant to financial reporting and could be drafted as follows: <i>Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.</i> It may be possible to delete some of the second sentence which mainly reinforces the importance of the first sentence.	Detailed drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).
032	According to DGFIP, the binding nature of budget in public sector, both in terms of voting modalities by the relevant assembly and of control of its execution, is as such a major difference with the private sector. DGFIP outlines the need for reconciling the budget outturn based on records of receipts and payments and the surplus or deficit for the period determined by accrual accounting system.	Noted.
033	<i>Refer to Para. 3.2</i> AASB staff do not support the comment in the first sentence that, historically, the budget has been more important than the financial statements of public sector entities. Undoubtedly, the budget has been given more prominence by public sector entities and in public discourse. However, that does not mean the budget is more important. In many jurisdictions, financial	Staff has no particular objection to replacing 'important' with 'prominent', although Staff considers that the statement is correct and that many of the subsequent comments

R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
	<p>statements have been prepared on a cash basis or modified accrual basis, and it is unsurprising that financial statements that do not report all of an entity's resources and obligations have been given less attention than budgets. In addition, some governments might prefer to emphasise budgets, rather than financial statements that reflect outcomes against budgets (either explicitly through budget-to-actual reporting, or implicitly). Reasons such as these do not make the budget more important than financial statements. AASB staff thinks the relative importance of the budget and financial statements is a value judgement that the IPSASB should not comment on in its Conceptual Framework or related documents.</p> <p>To reinforce the comments above on the first sentence, AASB staff note that the third sentence says the approved budget is the primary method by which the government's management is held financially accountable. We think a published budget cannot of itself enable users to hold an entity to account—the financial statements are also needed for this purpose. This is acknowledged in the first sentence of paragraph 3.3. Therefore, we think it is inappropriate to refer to approved budgets as having primacy over financial statements. Furthermore, we note that the budget basis adopted will affect the potential effectiveness of a budget as an accountability tool.</p>	<p>acknowledge this. Staff is not endorsing the historical situation, rather highlighting what has been accepted in many jurisdictions</p>
033	<p>Refer to Para. 3.3</p> <p>The first sentence (with its reference to assessing “actual spending against budget estimates”) seems biased toward cash budgeting. AASB staff think IPSASB documents should not be slanted against accrual budgeting in the public sector, even if unintentionally. Therefore, we suggest replacing “spending” with a more neutral word like “outcomes”.</p>	<p>Staff acknowledges this point, but notes that IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i>, uses the phrase proposes to change “actual amounts. An alternative might be to use the word “outturn”, as “outcomes” carries service performance connotations.</p>
035	<p><b><u>Importance of the Budget</u></b></p> <p>Section 3 discusses the importance of the budget in assessing the needs of users of financial reports and in determining the scope of financial reporting. Again the Province agrees with this statement in a generic sense. However the budget has extremely important relevance in the discussion about accounting standards and the conceptual framework.</p> <p>The budget is both a government policy statement and an estimate of the cost of implementing the policies announced and any related taxation implications. The Province sees government financial statements primarily as an accountability vehicle relative to the budget and the government's adherence to what the government indicated it would accomplish in the budget. Accounting standards should be set in a manner that ensures that the substance of the government's policy decisions is clear and that the results of implementing these policy decisions are appropriately reflected. In other words, accounting standards should reflect the policy decisions of government, accounting standards should not drive or influence government policy decisions.</p>	<p>Accounting standards apply to a range of public sector entities in different global jurisdictions. They are not intended to influence policy decisions and Staff is unclear how such an interpretation could have arisen.</p> <p>The importance or prominence of the budget is acknowledged in section 3.</p> <p>Staff notes that, as stated, these points</p>

R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
	<p>The Province believes that government does not have a capital base and that capital maintenance theory whether applied from the perspective of financial capital (with or without inflation adjustments) or from a physical capital perspective is inappropriate. Of particular concern are capital maintenance concepts supporting standard setters' suggestions of valuing a government's balance sheet using market prices at one point in time and revaluing it at a second point in time and measuring performance as the difference between the two net market values. This result essentially stands back and independently values the entity and would not be comparable with the budget document. The Province believes that accountability is the primary goal of financial accounting and that the cost basis of asset/liability valuation is the appropriate valuation basis for accountability. Other statements in the related Conceptual Framework papers state that an entity specific valuation method such as the cost method of asset valuation is unreliable because it represents the intentions or expectations of the entity or its management. The Province believes that its financial statements are intended to account for the impact of government's policy decisions on the financial position of government. They are not intended to be an independent valuation they are intended to be government's explanation of its stewardship. Considerable discussion of this topic is provided in the Province's responses to the Conceptual Framework papers which should be read in conjunction with this response.</p>	<p>have been raised by the respondent in comments on CF—CP3. Staff does not consider it necessary to discuss in the ED theories of capital maintenance and other measurement issues. These are being addressed in Phase 3 of the CF.</p>
036	<p><b>The role of the budget</b></p> <p>The title of Heading 3 should be changed: "role" instead of "importance".</p> <p>Publicity</p> <p>In contrast to the private sector, in the public sector the budget is public. It also serves the lawful implementation of financial management, namely through the credit law (basis for raising taxes, expenditure authority, commitment credits, payment appropriations) and the exercise of democratic rights (for example financial referendum).</p> <p>Financial control</p> <p>In the public sector the income statement plays a special role, because a government must cover its expenditures (mainly wages and subventions) by its revenues (mainly taxes), this also under the pressure of tax competition or measures to support the economy.</p> <p>The income statement also serves budget comparison purposes and in this connection the reader of financial reports accords it special attention.</p> <p>On the other hand the balance sheet does not have the same importance as in the private sector, where the total assets and the amount of equity permit calculation of profit ratios (return on equity). In the public sector the equity plays a secondary role, because the risk of insolvency is low and there are no shareholders.</p> <p>Nevertheless, the significance of the balance sheet must not be underestimated. After all,</p>	<p>Staff disagrees with the need to change the heading. The budget has the same objective in the private sector; however, its importance is greater in the public sector because it is a public document that drives fiscal policy and performance measurement. Staff acknowledges that many stress the importance of the statement of financial performance (income statement) in the public sector.</p> <p>However, staff does not consider it necessary to comment on the relative importance of the "income statement" and "balance sheet" in this ED and considers that an emphasis on the importance of the statement of financial performance (income statement) over the statement of financial position (balance sheet) is risky. The sovereign</p>

R#	COMMENTS ON SECTION 3 – THE IMPORTANCE OF THE BUDGET	STAFF COMMENTS
	<p>the budget impacts the level of debt.</p> <p>Budget constraints</p> <p>Governments are by law confronted ever more with fiscal or budget constraints. It must be possible with the financial reporting to demonstrate observance of these constraints at the time of budgeting, when closing the accounts and also in the context of the medium- and long-term financial planning.</p>	<p>debt crisis has demonstrated the importance of the statement of financial position in the public sector and the risks of neglecting it.</p>

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 4 – THE NATURE OF PROPERTY, PLANT, AND EQUIPMENT	STAFF COMMENTS
002	<i>Refer to Para. 4.1</i> Assets generate cash flows like buildings, highways, bridges, tunnels etc. Assets generate both continuing value and future cash flows to pay off debt servicing in current periods.	Many public sector assets are not held in order to directly generate cash flows.
005	We concur with this section and have no comments to add.	Respondent agrees with ED.
009	The Council agrees with the presentation on property, plant and equipment which is specialized either by nature (such as roads, military assets, etc.) or by use. It has no further comments on this point.	Respondent agrees with ED.
014	Paragraph 4.1 could be rendered more concisely as follows: In the private sector the primary reason for holding property, plant, and equipment and other assets is to generate positive cash flows. In the public sector, the primary reason for holding property, plant, and equipment and other assets is to provide goods and services to citizens and other eligible individuals and groups. For example, while rental income may be an important inflow on which future maintenance and refurbishment of the housing stock wholly or partially depends, the primary purpose of social housing is to provide accommodation for individuals and households which are not home owners and may not be able to participate in the private rental sector.	Specific drafting comments will be considered as the ED is further developed.
015	<i>Paragraph 4.2.</i> Is difficult <i>a priori</i> draw an exhaustive list of public assets as their extent also depends upon discretionary national political decisions.	Paragraph 4.2 was not intended to provide an exhaustive list of public sector assets.
018	PPE para 4: Challenges of measurement and the determination of the useful lives of the assets and capitalization policy could also be discussed in the supplement and examples given.	Staff does not consider these issues to be different from those in the private sector, which also needs to determine whether to recognize assets and determine assets' useful lives
022	In para 4.2 rather than referring to "specialized" assets, why not say that they include infrastructure assets.	Specific drafting comments will be considered as the ED is further developed. "Infrastructure" has not been defined in IPSASs (e.g., IPSAS 32). However, many assets that would not be considered infrastructure may also be specialized, such as military equipment.
023	I think the heading of this section is misleading. It does not matter if it is property plant and	Staff agrees with the comment. Para.

R#	COMMENTS ON SECTION 4 – THE NATURE OF PROPERTY, PLANT, AND EQUIPMENT	STAFF COMMENTS
	equipment or inventories; the issue is whether the asset generates cash flows. I note a private sector firm may have stocks of stationary or promotional material, which do not generate cash. This is not too different from items discussed under the ' <i>volume and financial significance</i> ' heading.	4.1 does address the cash flow vs. the provision of goods and services issue. Staff proposes to change the heading to "Nature and Purpose of Assets in the Public Sector" to highlight the purpose of holding assets in the public sector (as set out in para. 4.1 of the ED).
029	With regards to the key characteristics that may have implications to the definitions and measurement of assets, it is Ontario's view that the measurement basis should be considered together with the recognition criteria to determine whether certain unique power or right of government meets the definition of an asset, thus being included in the government financial statements. Also, the measurement basis should reflect the nature of the public sector assets. Ontario agrees that the primary reason for holding tangible capital assets is to deliver services to the public rather than to generate positive cash flow. Most assets have limited market value due to their specialized nature but are essential to government operations and the value provided to the public. Therefore, market valuation would not be appropriate measurement basis. We agree that a measurement basis other than the market value best supports transparency and accountability reporting of the public sector. Specifically, a single measurement basis of historical cost with limited application of another basis should be adopted by the IPSASB.	These issues are considered in Phases 2 and 3 of the CF. The respondent's support for historical cost has been stated in response to CF—CP3.
033	<p><b>Overstated distinctions</b></p> <p>The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities. For example:</p> <p>in relation to paragraph 4.2, various private sector businesses (such as constructors, mining companies, manufacturers and utility operators such as power companies) also have a significant proportion of assets that are specialised and traded in limited markets. The third sentence acknowledges this point, but notes these characteristics of assets are more pervasive in the public sector and have potential implications for measurement. In that regard:</p> <p>(i) the AASB does not consider these characteristics of assets to be sufficiently infrequent in the private sector to justify treating them as public-sector-specific; and</p> <p>(ii) the AASB notes that, for statistical convergence or regulatory reasons, public sector entities in some jurisdictions are required to regularly remeasure their property, plant and equipment (unlike private sector entities). However, the AASB does not consider jurisdiction-specific regulatory and other factors should be emphasised in the IPSASB's Conceptual Framework or related documents;</p>	<p>Staff notes that the paper clearly relates this issue to the nature of the services provided by PP&amp;E in the public sector. Therefore, staff does not consider the issue to be overstated. The impact of this issue on measurement is explored in Phase 3 of the CF.</p> <p>Staff agrees that jurisdiction-specific regulatory factors should not be emphasized. The ED did not suggest that measurement requirements for PP&amp;E should be dependent upon regulatory requirements.</p>

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 5 – RESPONSIBILITY FOR NATIONAL AND LOCAL HERITAGE	STAFF COMMENTS
001	<p>Refer to Para. 5.2</p> <p>The last sentence of paragraph 5.2 states that: “There are issues concerning whether such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p> <p>We would suggest amending the sentence as follows as it is clear that some heritage items do meet the definition of an asset, e.g. a painting acquired by a public sector entity: “There are issues concerning whether <u>all</u> such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p>	<p>Staff is not sure that all jurisdictions would agree that an old master painting acquired by a public sector entity should be recognized as an asset. However, Staff proposes to make a change to “some or all of such items”.</p>
005	We concur with this section and have no comments to add.	Respondent agrees with ED.
007	<p>Refer to Para. 5.2, concerning whether items considered to be of a national and local heritage meet the definition of an asset and the recognition criteria for assets</p> <p>In this context we consider it important to note, that the main aim not should be to calculate what the state or respective entity is worth. The balance should not necessarily include a valuation of all national property, the national heritage assets such as castles, historical buildings, monuments and works of art. It is important that the assets are recognized in order to be able to define and measure the cost of preserving, monitoring and providing public access, but the economic value does not present any meaningful information. Only assets that contribute to the entities output – should in principles contribute to the state of balance.</p>	Staff notes these points.
009	The Council would like the Exposure Draft to mention that for historical and cultural heritage assets the most difficult issue is the entry value in the accounts. This point was raised in the Council’s reply to the Consultation Paper number 3 on the Conceptual Framework, relating to measurement.	Staff agrees that ascertaining an entry value can be problematic for many heritage assets. The issue is considered in Phase 3 of the CF and it is not considered necessary to go into detail here.
014	<p>Paragraph 5.2 mainly reflects on aspects of heritage assets which are important and relevant to government policy rather than financial reporting. In terms of characteristics which might result in different financial reporting, it might be more appropriate to note that in addition to being generally managed without regard to commercial return</p> <ul style="list-style-type: none"> <li>– Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.</li> <li>– Many heritage resources may not be sold in markets, or governments may wish to discourage sale.</li> <li>– In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.</li> </ul>	Staff agrees that these additional characteristics of heritage assets should be included.



R#	COMMENTS ON SECTION 5 – RESPONSIBILITY FOR NATIONAL AND LOCAL HERITAGE	STAFF COMMENTS
	For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.	
015	<i>Paragraph 5.2.</i> It should be specified that, while responsibility to maintain national and local heritage for future generations is unquestionably a public concern, its management aimed at making a productive/economic use of it can well be private in nature (obviously under pre-set conditions).	Staff accepts this point and it might be worth including, although it is questionable whether it has an impact on financial reporting.
023	I am not convinced this is an appropriate characteristic to make it a key issue, as it is based on ‘intent’. I do not believe the reasons for holding an asset are important. The important factor is that these assets are public or social assets.	Staff disagrees with this respondent. The terms “public” and “social” assets are not defined and may be interpreted differently. Staff considers that heritage assets do give rise to difficult accounting issues on which there are divergent views.
023	The intergenerational issue (noted in para 5.2) is a key characteristic for public sector firms. A public sector entity will (in the long-run) try and achieve break-even. At break-even the tax collected is fully distributed to the current tax payers. [There may well be issues relating to whether the costs of services will equal the value of the benefits provided. For the purposes of discussion I will ignore issues of effectiveness]. That is, at breakeven there is no intergenerational anomaly. When a loss arises it is funded from accumulated reserves or debt; which has implications for past and future taxpayers respectively. This does not happen in the private sector because the owner settles up and is compensated based on the negotiated future prospects.	Staff agrees with the respondent that the intergenerational issue is broader than heritage assets and also relates to other assets in the public sector; however, it is not as directly relevant in other sections of the paper as it is for heritage assets.  Staff does not consider that a lengthy discussion of why intergenerational issues arise is necessary.
028	Paragraph 5.2 covers aspects of heritage assets which are important and relevant to government policy rather restricted to financial reporting. It might therefore be more appropriate to note: <ul style="list-style-type: none"> <li>- Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.</li> <li>- Many heritage resources may not be sold in markets, or governments may wish to discourage sale.</li> <li>- In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.</li> </ul> For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical	These points are similar to those noted by Respondent 14. Staff agrees that the respondent’s comments on the additional characteristics of heritage assets should be included in the ED.

R#	COMMENTS ON SECTION 5 – RESPONSIBILITY FOR NATIONAL AND LOCAL HERITAGE	STAFF COMMENTS
	considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.	
032	According to DGFIP, the ED should address the difficulties raised concerning the initial recognition of historical and cultural assets in public sector using the cost approach for items that have not been purchased and/or for which the cost cannot be assessed without a large margin of error and for a narrow usefulness.	Similar issue raised by Respondents 14 and 32. The IPSASB currently has a deactivated project on heritage assets on its project list and has carried out significant work previously on heritage assets.. The IPSASB has also included guidance on heritage assets in IPSAS 17 and IPSAS 31.
033	<p><b>Overstated distinctions</b></p> <p>The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities. For example:</p> <p style="padding-left: 40px;">the second sentence of paragraph 5.1 does not acknowledge that private sector businesses are often responsible for the protection and preservation of historical buildings they occupy;</p>	Staff accepts that some private sector entities will have heritage responsibilities. However, the nature of such a responsibility to preserve heritage assets is likely to be different (i.e., externally-imposed for a particular asset) from the public sector's overall responsibility for such assets.
037	HoTARAC recommends that section 5, 'Responsibility for National and Local Heritage' includes some acknowledgement that, in some jurisdictions, state governments and other sub national units have responsibility for heritage assets. HoTARAC suggests the heading be modified to 'Responsibility for Heritage', without specifying a level of government.	<p>The opening sentence of section 5 stated that "Governments and other public sector entities may have some extensive responsibilities for the national and local heritage". Therefore it was acknowledged that heritage responsibilities are not restricted to central governments.</p> <p>Nevertheless Staff proposes to broaden the discussion and change the heading of this section to "Responsibility for Heritage".</p>

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
001	<p><i>Refer to Para. 6.1</i></p> <p>In order to strengthen the argument for the continued existence of governments, we would suggest adding a sentence between the last and penultimate sentence in the paragraph indicating that, it is usually the political landscape that threatens the existence of governments (and entities) rather than their financial viability.</p> <p><i>Refer to Para. 6.2</i></p> <p>We question the reference to 'sub-national' in the opening sentence. In our experience, mergers and amalgamations may occur at any level of government and not just sub-national government.</p>	<p>Staff proposes to change paragraph 6.1 to indicate it is usually external factors and not financial viability that affects a public sector entity's ability to continue as a going concern.</p> <p>Staff does not propose to change wording. Staff considers that mergers and amalgamations are more common at sub-national levels.</p>
002	<p><i>Refer to Para. 6.4 to 6.5</i></p> <p>The "Going Concern" principle is fundamental to the compilation of financial statements. In places like China, the "Going Concern" concept is undermined by random Acts of G-d like huge floods, earthquakes and tsunamis. The advent of these natural crises force governments to expend huge amounts of resources to attend to the needs of local citizens and repair public and private property.</p> <p>Long term sustainability is a most fundamental or elemental principle.</p>	<p>Noted.</p>
004	<p><i>Refer to Para. 6.6</i></p> <p>Prospective financial information frequently involves assumptions based on disciplines outside accounting and subject to interpretation. Accordingly, prospective financial information should not be included in the scope of financial reports.</p>	<p>Specific comment on the scope of reporting proposed in CF—ED1.</p> <p>CF—ED1 proposes that such information is necessary to meet the objectives of public sector financial reporting and the information needs of users. Issues related to verifiability have been acknowledged.</p> <p>The issue of long-term sustainability is the subject of a current IPSASB project, <i>Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances</i>. That project addresses this issue.</p>
005	<p>Whilst we generally concur with the section, we note that some commercial sector activities also have a long lifespan. In particular, some mortgages and other insurance policies can last more than one generation.</p>	<p>Staff agrees with the drafting suggestions.</p>

R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
	<p>Moreover, the example of changes in Section 6.1 is good but will quickly become dated. We therefore recommend the following changes (the additions and deletions are highlighted):</p> <p>“There are certainly <b>recent</b> examples of the division or fragmentation of nation-states into a number of smaller nation-states, <b>particularly e.g.</b> in the former Soviet Union and Eastern Europe in the 1990s.</p>	
009	<p>The Council agrees that one of the key characteristics is that the missions of public entities are generally of a long-term nature. In this respect, it should be remembered that for public entities the going concern principle is not relevant, because even if a public entity disappears its mission continues and is generally taken over by another entity.</p> <p>The long-term nature of public service missions also leads to the issue of the place of reporting on the sustainability of public finances. At this stage, the Council wishes to reiterate the position expressed in the reply to the Exposure Draft (ED 1) on the Conceptual Framework. In the Council’s opinion, the Conceptual Framework is of an accounting nature and should only apply to the financial statements, that is to say the balance sheet, the income statement and the notes and not to the additional information which the IPSAS Board proposes to include in the General Purpose Financial Report. The Council does however consider that complementary information may be given but that the Conceptual Framework does not apply to it.</p>	Specific comment on the scope of reporting proposed in CF—ED1.
013	ACAG believes that the comments at paragraph 6.6 regarding prospective financial information have very important financial reporting implications and they emphasise the usefulness of the ACAG Conceptual Model provided in our response to Phase 2 of the Conceptual Framework project.	View on significance of prospective financial information is noted.
014	<p>The overall tone of paras 6.4 and 6.5 might be read as implying that the going concern <i>principle</i> is less significant for government. This seems inappropriate, especially in the light of the recent economic crisis, and IPSASB’s work in the area of long term fiscal sustainability. It might be better to mainly focus on the going concern <i>assumption</i>, noting that, in the light of the longevity of governments and their recourse to tax-raising powers, the going concern assumption is not often significantly challenged.</p> <p>We therefore suggest that an additional sentence “As a result, the going concern assumption is rarely challenged in respect of the public sector” is added to para 6.2.</p> <p>Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in the section on non-exchange transactions.</p> <p>Paragraphs 6.4 and 6.5 and the first and final sentences of paragraph 6.6 can be deleted, leaving the text:</p>	<p>IPSAS 1 states that “financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from approval of the financial statements.”</p> <p>The going concern assumption may be actually quite short-term in its</p>

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R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
	Sections 6.5 and 6.6 refer to the going concern principle as having been generally of less significance in the public sector. Without foundation, this statement is overly simplistic. Given recent developments in certain jurisdictions particularly within Europe, a fuller discussion pertaining to an appropriate application of the going concern assumption in the public sector context is called for. For example, a discussion as to in what type of circumstances might it be appropriate for a public sector entity to set aside the going concern assumption would be helpful.	financial reporting.  See Staff Comments on #14 above re: going concern.
023	I do not think that 'longevity' is a suitable characteristic. First, a fundamental basis for financial reports is 'going concern' – hence private sector reports are based on an assumption of longevity. This is also reflected in the way assets and liabilities are classified into current and non-current. Furthermore, it is not the case that if a private sector entity goes into liquidation, the assets suddenly disappear.	See comments on #14 above.
025	Paragraph 6.3 discusses the longevity of government programs and the fact that the effects of past decisions are not known until many years into the future. Also questions whether obligations related to such programs meet the definition of an asset or liability in the financial statements. It is our position that this concept as presented does not develop rationale of understanding the uniqueness of government operations or support its implications in relation to financial reporting that should provide useful information to the users of the financial statements.  Paragraph 6.6 discusses the longevity of the public sector and that the concept of going concern is less relevant in the public sector, while at the same time, noting that it is of increasing relevance to provide information on long-term sustainability of key programs and a need of prospective financial reporting for accountability and decision-making purposes. It is our position that guidance in such areas beyond the financial statements should be left to the discretion of the individual reporting jurisdictions which may have their own legislative and/or regulatory requirements in such reporting areas.	Opposition to scope of CF (and fiscal sustainability project) noted. See also Respondent #28.
028	The overall tone of paras 6.4 and 6.5 could be read as implying that the going concern principle is less significant for government. This seems inappropriate particularly in the light of the recent economic crisis and IPSASB's work on long term fiscal sustainability. It might be useful to focus on the going concern assumption and noting that it is not often significantly challenged as governments have recourse to tax-raising powers.  We therefore suggest that para 6.4 could be clearer by explaining that financial reporting adopts a standardised (sic) approach to recognising and measuring assets and liabilities, consistent with a continuing entity rather than on the basis that assets or liabilities might need to be disposed of or settled at short notice under unfavourable terms.  Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in	Opposition to scope of CF (and fiscal sustainability project) noted See also Respondent #25. Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).  See also comments on #14.

R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
	the section on non-exchange transactions.	
030	<p>Paragraph 6.3 discusses the ability to tax and control of rights to natural resources and whether or not they meet the definition of assets. While we agree this is a valid theoretical accounting discussion, it should take place only after the fundamental or "core" standards are in place.</p> <p>Paragraph 6.6 indicates the need for future, prospective financial information for accountability and decision-making purposes. We continue to question the appropriateness of including prospective information references and believe the Board should limit its focus to historical-based financial information.</p>	<p>The ED only raises this issue as a consideration in standard-setting but does not need to discuss it in detail. Opposition to scope of CF noted.</p>
032	<p>DGFIP considers that the longevity of public entities, as exposed in the ED, is as such an essential feature of public sector, whereas private sector companies face a probability of failure in going concern. As mentioned above in the general comment, this characteristic of the public sector should have implications for the choice of the measurement methods of assets and liabilities.</p> <p>However, as already mentioned in its answer to the ED Phase 1 relative to the conceptual framework, DGFIP considers that the conceptual framework should be strictly focused on accounting matters and should not apply prospective or sustainability financial information which should be part of sovereign competencies.</p>	<p>Opposition to scope of CF (and fiscal sustainability project) noted.</p>
033	<p><b>Overstated distinctions</b></p> <p>The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities. For example:</p> <p>Paragraph 1.4 (third sentence) comments that, unlike with most private sector entities, the future existence of public sector entities is not dependent on the generation of profits.</p> <p>Paragraphs 6.1 (fourth sentence) and 6.5 (second sentence) comment that governments and sub-national entities that encounter severe financial difficulties cease to exist only very rarely or may be restructured (with some service delivery responsibilities transferred to other entities). However:</p> <ul style="list-style-type: none"> <li>the viability of any entity, whether in the public sector or private sector, depends on its ability to generate net cash inflows. The tipping point for ceasing to be viable will depend on the circumstances; regardless of its sector, an entity may remain viable, with a reduced capacity to provide goods and services, despite incurring losses in some periods. Public sector entities with taxing powers might be more capable than other entities to generate sufficient cash inflows, but this does not obviate the need to generate cash inflows and does not justify the statement in the first sentence of paragraph 6.5 that going concern has generally been less relevant in the public sector than in the private sector. Even taxing powers do not guarantee that sufficient taxes will be generated, as individuals and businesses may relocate or change their affairs to</li> </ul>	<p>Staff accepts that many private sector entities have existed for a number of years, but considers that the powers, rights and obligations of governments give rise to a particular set of issues.</p>

R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
	<p>avoid paying those taxes, or simply be incapable of paying sufficient taxes to meet the government's needs; and</p> <p>given that both the IASB and IPSASB Conceptual Frameworks are being developed for financial statements prepared under the going concern assumption (while noting that this assumption may be inappropriate for some entities), the focus on the continued existence of public sector entities (vis-à-vis private sector entities) seems less appropriate than a focus on a reduced capacity to provide goods and services (e.g., whether the chosen measurement model would provide useful information for assessing that capacity). Since such reductions can occur in the public and private sectors, it is not clear that the asserted longevity of public sector entities has financial reporting implications (specifically, for the content of the IPSASB Conceptual Framework and IPSASs);</p> <ul style="list-style-type: none"> <li>the first sentence of paragraph 6.1 does not identify a public-sector-specific characteristic. Various private sector businesses (e.g., banks) have existed for many generations and may continue to exist for a very long time; and</li> <li>in relation to paragraph 6.2, restructurings of private sector businesses are also commonplace. The implications of public sector entities generally providing different services than private sector businesses (alluded to in the second sentence) are not explained.</li> </ul>	
033	<p><i>Refer to Para. 6.3</i></p> <p>AASB staff think the second sentence does not logically follow on from the first. The difficulty of determining whether social benefit programs give rise to 'obligations' that meet the definition of a liability does not arise from the long-term nature of those 'obligations' (for example, environmental restoration obligations might not be settled for many years, but that does not cause doubt about whether they are liabilities).</p> <p>AASB staff think it is an overstatement for the fourth sentence to indicate the issue of whether the power to tax is an asset <u>arises</u> from the dependence of social benefits provision on future tax flows. We think that whether the power to tax is an asset is a separate (albeit related) issue from whether social benefit 'obligations' are liabilities.</p> <p><i>Refer to Para. 6.6</i></p> <p>AASB staff think an important reason why prospective financial information about long-term programs of public sector entities might be particularly useful is that many entities do not recognise social benefit 'obligations' as liabilities and, accordingly, information about such 'obligations' is not provided in statements of financial position. Therefore, we think the argument in this paragraph should be made specifically in respect of social benefit programs, and not as a general comparison between the need for prospective financial information in the public and private sectors.</p>	<p>Staff considers that the long-term nature of such an obligation does create problems in determining whether there is a liability, because they contribute to uncertainty as to whether governments have a realistic alternative to settle such obligations.</p> <p>Staff agrees.</p>



R#	COMMENTS ON SECTION 6 – THE LONGEVITY OF THE PUBLIC SECTOR	STAFF COMMENTS
033	<p>Refer to Para. 6.5</p> <p>The second sentence seems to repeat the second sentence of paragraph 6.2.</p>	<p>Agree. Staff will combine the last sentence in para. 6.5 with para.6.2.</p>
036	<p><b>Going concern principle and division of the assets</b></p> <p>From the financial reporting aspect the going concern principle requires the distinction between Administrative Assets and Non- Administrative Assets. Administrative Assets are defined as all assets that are earmarked for the fulfillment 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.</p> <p><b>Going concern principle and balance sheet amounts</b></p> <p>Because many government transactions are not for profit, the carrying amounts of assets are not defined by their capacity to generate cash or their market value. It does not make sense to value an asset on an earnings basis, when its purpose is not to earn a yield but to provide goods and services at as low a cost as possible. The same applies to the market valuation of an asset, which in no event is to be sold. Therefore a true and fair presentation depends on their purpose. For example the grant of a concessionary loan by a government that has transferred some of its obligations to another entity has only the objective of financing the outsourced services. The government has no reason and does not intend to sell the loan to a third party.</p> <p>For this reason a valuation approach should be selected, which discloses the total costs of the government (recording of a nonmonetary service in the amount of the non-invoiced interest) in accordance with IPSAS 23 instead of an earnings based valuation (for the carrying amount of the concessionary loan). The reader of the balance sheet is not interested in the amount, at which a loan, which is never going to be sold, can be sold. He is more interested in the costs for the government and of the services financed by the loan.</p>	<p>Staff does not find this distinction particularly helpful as it uses terms that might be applied in other ways. For some, the term “administrative assets” may connote assets that are being used for administrative purposes rather than directly for service delivery.</p> <p>CF—ED3 has acknowledged that many public sector assets are not held for cash generation. While these issues are standards-level rather than conceptual a case can be mounted that, in the context of concessionary loans, users do need information on the subsidies involved in making and receiving such loans.</p>

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
005	We concur with this section and have no comments to add.	Respondent agrees with ED.
009	The Council agrees with the content of this point and has no further comments.	Respondent agrees with ED.
013	At paragraph 7.2, it is unclear what is meant by the statement “the existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector.” ACAG suggests that the IPSASB clarify this paragraph to clearly explain what the implications could be. In our view, the government’s regulatory power over the private sector is less important than the ability of some governments, through their control of the legislature, to change the law to alter the government’s rights and obligations to other parties. For example, in extreme cases, the government could disown obligations it has entered into, or create assets by exercising its legal rights, such as by auctioning of the radio magnetic spectrum. We also suggest that the title at 7 could be expanded to “The Regulatory roles and Legislative roles of Government”.	The ED refers to the regulatory role of government that has no private sector counterpart. From a public sector entity’s point of view, this regulatory role can have implications for determination of control of an asset or an entity. CF—CP2 acknowledged that government has the sovereign power to repudiate obligations and considered whether such power justifies not recognizing as liabilities obligations that otherwise meet the definition of a liability. Staff does not think that a discussion of sovereign power belongs in this section. Therefore staff does not think that the title of the section should be amended.
014	We suggest that the first two sentences of paragraph 7.2 are deleted.	Staff think that these sentences are important and do not agree that they should be deleted. Those sentences follow on the discussion in para. 7.1 on pricing and link to the impact on the reporting entity and scope of financial reporting in the public sector in para. 7.2.
015	<i>Paragraph 7.1.</i> Where the role of public regulation is underlined, also its redistribution function should be specified, as it may affect the assessment of results obtained within single government sectors or levels.	Paragraph 1.4 refers to government decisions on the distribution of resources between different sectors of the economy.
018	Regulatory role of the government: the need for proper and full accounting for the public sector is seen especially with the recent global credit crisis which is still biting many economies to date	Not a specific comment on the ED.

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
	The government had to step in and bail out financial institutions and possibly other private sector entities. Hence sustainability of public finances and the govt ability to meet its obligations and cater for emergencies like the crisis, recent earthquake in Japan and other natural disasters and eventualities which may not be foreseen and where the govt intervention is required puts more pressure on the sources (mainly the taxes) and the greater need for more efficient use of the scarce resources and more transparency and accountability.	
019	Paragraph 7.1, pg. 10 “Regulatory intervention also occurs where there are market imperfections or market failure for particular goods or services, and where the <u>total costs</u> of particular transactions and activities are not transmitted through pricing and may therefore be borne by those other than producers or consumers (that is, externalities occur, <u>often resulting in costs borne by the society as a whole</u> (“social costs”), <u>not just by parties to particular transactions. Examples include taxation of toxic/hazardous waste byproducts, environmental pollution/degradation, and unwholesome or unsafe products - such as nicotine and alcohol, etc. - which cause illnesses, injuries, and remediation costs to both transactors and to third parties).</u> ”	Staff considers that some examples may be helpful, but thinks that these should be as high level and non-emotive as possible.
023	Why is this characteristic any different from the ability to tax (i.e., para 2.4 to 2.7)? I acknowledge that this might be an issue in determining ‘control’, but the level of benefits related to this characteristic is infinite, so it would be physically impossible to draw up financial statements using this as a characteristic.	Staff is not proposing that financial statements should be drawn up to include regulated bodies, but does consider that regulatory powers can create uncertainty as to whether control exists.(noting that a decision has been made in Phase 1 not to use the term “control” ).
025	Paragraph 7.2 discusses the regulatory role of government, the impact that this role has on the pricing structures and operating approaches of private sector entities and the impact this role has on the reporting entity and the scope of financial reporting in the public sector. Again, such an approach leads to more questioning and subjectivity in determining the extent of inclusion within the government reporting entity and avoids more appropriate discussion of constitutional arrangements that should be respected in developing the concept of a government reporting entity within the Conceptual Framework.	This is a standards-level (reporting entity) issue and should not be elaborated on in this document. See also Respondent #28.
028	Paragraphs 7.1 to 7.2 seek to describe the regulatory role of government. Given the variety of different approaches internationally it is difficult to do this clearly. The paragraph does not seem to explain why these distinctive characteristics are relevant to public sector financial reporting and in particular it is difficult to understand the basis for the suggestion in 7.2 that: “The existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector.”	See also Respondent #25. The regulatory aspect can affect the determination of whether control exists. This feature distinguishes public sector organizations from private sector entities.

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
	<p>It is not clear that the regulatory aspect of government raises reporting issues which are particularly different to other government programs with difficult to measure outcomes. If the intention is to suggest that regulation adds nuances to the consideration of the extent of government control then this could be clearer.</p> <p>We suggest that the draft either needs more explanation as to how regulatory responsibilities might give rise to entity boundary and scoping issues. Alternatively this section could be shorter and combined with section 2 (see paragraph 4 above).</p>	
031	<p><b>Powers, rights and responsibilities of governments should be separately identified.</b></p> <p>The rights, powers and responsibilities of governments give them the ability to directly and indirectly affect the environment (and the economy) they operate in, as well as the nature and extent of the public accountability they provide.</p> <p>Governments can:</p> <ul style="list-style-type: none"> <li>• tax;</li> <li>• penalize and fine;</li> <li>• issue licenses to act/use/access, etc.;</li> <li>• make and enforce laws and regulations;</li> <li>• set monetary policy; and</li> <li>• set fiscal policy.</li> </ul> <p>These rights, powers and responsibilities may vary by level of government.</p> <p>In return, governments have the responsibility to (and/or the expectation that they will):</p> <ul style="list-style-type: none"> <li>• meet their Constitutional or devolved duties;</li> <li>• set policies to manage the socio-economic issues of the jurisdiction (for example, the effective functioning of the economy, foreign affairs, social welfare, economic and political sovereignty, pollution, education, health, the proclaiming and safeguarding of borders and maintaining peace, order and good government within those borders, etc.) in an efficient, effective, sustainable and transparent manner through the stewardship and application of the public resources entrusted to them;</li> <li>• deliver services and reallocate resources (for example, establishing and maintaining the legal system, national defence, providing public safety, education, health and transportation services) to meet identified policy objectives that have been subject to democratic scrutiny;</li> <li>• bear risks of significant breadth and scope and thus act as residual risk holder in their jurisdiction in extraordinary circumstances (for example, natural disasters, economic intervention) and sometimes in cases where a risk to the public is otherwise</li> </ul>	<p>Staff does not consider these powers to affect financial reporting directly even though they may indeed be characteristics of the public sector.</p> <p>The regulatory role of government is important to financial reporting as it can be a factor when determining control (e.g., in IPSAS 32).</p>

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
	<p>unassumed or uninsured, regardless of whether the government has a contractual requirement to bear the risk.</p> <ul style="list-style-type: none"> <li>• be accountable for the efficient, effective, sustainable and transparent management, stewardship and application of the public resources entrusted to them;</li> <li>• exist and operate in perpetuity (i.e., long-term sustainability) to meet the needs of the jurisdiction; and</li> <li>• be good managers of the economy and the business of government (including managing the trade surplus/deficit, the value of the dollar, government debt and other liabilities, as well as the sustainability and affordability of programs and policies).</li> </ul> <p>Governments may choose to exercise these powers or meet these responsibilities directly or indirectly through various government organizations or in some cases through a reallocation of resources outside of government.</p> <p>These powers, rights and responsibilities are alluded to in the section on non-exchange transactions and in the Introduction but they are not set out as a key characteristic of the public sector. In our view they should be separately highlighted – and likely split up. These are the primary reason for the requirements for public accountability. —With great power comes great responsibility and broad accountability.</p> <p>We believe that these powers, rights and responsibilities are key characteristics of governments (and government organizations to whom such powers, rights and responsibilities might be devolved). They should be given greater individual prominence in the key characteristics of the public sector part of the IPSASB's Conceptual Framework.</p> <p><b>Regulatory role of government is not the whole story.</b></p> <p>The regulatory role of government is one of the “powers, rights and responsibilities” mentioned in (iii) above. So we are not sure why this power deserves separate mention when others do not.</p>	
032	<p>The DGFIP would like the role of social intervention of public authorities is indicated in the ED.</p>	<p>This is implicit in sections 2 and 7 of the ED but it might be worth stating directly, although there is considerable variation in the extent to which government intervenes in the economy for social purposes.</p>
033	<p><b>Refer to Para. 7.1 to 7.2</b></p> <p>Whereas the first sentence of paragraph 7.1 refers to governments' “powers to regulate”, the first sentence of paragraph 7.2 refers to “regulatory responsibilities” (but not “powers”). AASB staff suggest adding a reference to “regulatory powers” in the first sentence of paragraph 7.2.</p> <p>We found confusing the reference to “protect the population from certain risks that would not</p>	<p>Staff proposes to remove inconsistent terminology regarding the regulatory role of government.</p> <p>Staff agrees that clarification and an</p>

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
	be conveyed through pricing mechanisms” in the third sentence of paragraph 7.1, and suggest clarifying it.	example would be helpful.
035	<p><b><u>Regulatory Role of Government</u></b></p> <p>In discussing the regulatory role of government (Section 7) the paper raises the possibility that government regulatory agencies might not be included in the government reporting entity. Regulatory authority, over matters within our jurisdiction, rests with government and these agencies are funded from the budget. Under PSAB standards they are included in the government reporting entity. This is a new idea or concept which is the only item in this paper that is not also addressed in the related Conceptual Framework papers. The Province would be interested in a full discussion of the logic behind this idea, without which the Province is not prepared to take a position.</p>	The issue of the reporting entity is being considered in CF Phase 1. This paper is not drawing a conclusion, but merely indicating it may have an impact.
037	<p><b>1. Government as regulator</b></p> <p>Governments usually have extensive regulatory powers and may use these to control price and service delivery.</p> <p>A government may control the market for a service by being a monopoly producer and using its regulatory power to exclude others from the market (for example, by operating a postal service). This is particularly the case in less developed countries, where governments may also be the sole provider of public transport, telecommunications, banking, water, gas, and electricity services. A government may also influence market behaviour by regulating prices and standards of service delivery or by subsidising certain industries.</p> <p><b><i>Financial Reporting Implications:</i></b></p> <p>The exercise of a government’s regulatory power over assets operated by other entities may result in confusion in determining who has control of the asset, particularly where a rights-based criteria is applied. Generally, governments have regulatory power over many areas of a country’s economy. This should not result in the government controlling assets of entities within the various economic sectors.</p> <p>HoTARAC reiterates its comments from the submission on the consultation paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</i> on the importance of distinguishing between a government’s right to benefit from the economic benefits embodied in an asset (control of an asset) and the rights the government obtains through its regulatory role.</p>	The issue of control needs to be considered in the CF (reporting entity, specific assets), not elaborated on in this paper.
038	<p>Paragraph 7.1, pg. 10</p> <p>“Regulatory intervention also occurs where there are market imperfections or market failure for particular goods or services, and where the <u>total costs</u> of particular transactions and activities are not transmitted through pricing and may therefore be borne by those other than producers or consumers (that is, externalities occur, <u>often resulting in costs borne by the</u></p>	Staff agrees that the inclusion of some examples would be helpful.

R#	COMMENTS ON SECTION 7 – THE REGULATORY ROLE OF GOVERNMENT	STAFF COMMENTS
	<u>society as a whole (“social costs”), not just by parties to particular transactions. Examples include taxation of toxic/hazardous waste byproducts, environmental pollution/degradation, and unwholesome or unsafe products - such as nicotine and alcohol, etc. - which cause illnesses, injuries, and remediation costs to both transactors and to third parties).</u> ”	

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 8 – OWNERSHIP OR CONTROL OF RIGHTS TO NATURAL RESOURCES AND PHENOMENA	STAFF COMMENTS
002	Refer to Para. 8.1 The government may control rights to natural resources. Generally, the government may quantify what exists in the form of natural resources via provable reserves of oil, gas and other precious resources in a finite supply- at least on Earth. Places like Saturn's moon Titan have huge reserves of hydrocarbons and gases which are in finite supply on the Earth.	No specific comment on ED.
005	We concur with this section and have no comments to add.	Respondent agrees with ED.
009	This paragraph deals, under the general heading of Control of Rights to Natural Resources, with various topics of a different nature, as a result of which it is not possible to draw any relevant conclusions for accounting. The Council gave its opinion on recognition principles for exploitation rights of resources in the public domain by the central government in its reply to Consultation Paper number 2 of the Conceptual Framework.	This is an issue to be considered in Phase 2 of the CF, not elaborated on in this paper.
015	<i>Paragraph 8.1.</i> It may be difficult to practically recognize it in financial statements, but there is no doubt that ownership or control of rights to natural resources and phenomena have actually given rise to assets at least in a number of European countries. As a matter of fact, significant royalties and taxes have been and are still collected by governments and sub-national public entities.	This is an issue to be considered in Phase 2 of the CF, not elaborated on in this paper.
019	Paragraph 8.1, pg. 11 “ .... They also have rights over phenomena such as the electromagnetic spectrum. <u>The electromagnetic spectrum extends from low frequencies used for modern radio to gamma radiation at the short-wavelength end. Governments frequently regulate the use of wavelengths within their territory and lease the rights to use specific frequencies in specific locations, both to protect those that have a legitimate social purpose in the use of a particular wavelength and to prevent unauthorized use of restricted public-purpose wavelengths that could result in risk to public health and safety</u>	Staff does not consider that such a level of detail is necessary in this paper.
023	I am not sure why this is different from regulatory role of government. The ‘potential’ is unlimited and therefore infinite and therefore unaccountable. Once created then presumably there is a market and a fair value can be estimated; or there is no market and it is a likely to be a non-exchange transaction.	The issue of whether a right is an asset is being addressed in the CF.
025	Finally, paragraph 8.1 discusses the rights of natural resources (mineral reserves, water, fishing grounds and forests) that allow governments to grant licenses or obtain royalties and questions whether such rights give rise to assets, and if so, whether such assets meet the criteria for recognition in financial statements. It is our position, as previously provided to the	This is an issue to be considered in the CF, not elaborated on in this paper.



R#	COMMENTS ON SECTION 8 – OWNERSHIP OR CONTROL OF RIGHTS TO NATURAL RESOURCES AND PHENOMENA	STAFF COMMENTS
	IPSASB, while there may be some perceived benefit associated with these unique rights of government, it is still questionable whether recording such items as assets would be useful or even appropriate from a financial reporting perspective.	
032	<p>The DGFIP considers this section addresses too many different topics without drawing all implications for accounting rules from them.</p> <p>Thus, the ED appears to put on the same level rights to natural resources (mineral reserves, forests...) and rights over the electromagnetic spectrum.</p> <p>As already mentioned by the DGFIP in its answer to the ED Phase 2 relative to the conceptual framework, 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 at the date of the conclusion of the transaction that reveals the future economic benefits in order to measure it reliably.</p>	This is an issue to be considered in the CF, not elaborated on in this paper.
037	For example, paragraph 8.1 states that it is unclear whether rights to natural resources give rise to assets. HoTARAC notes this issue also relates to Specific Matter for Comment 4 in the Phase 2 consultation paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</i> on the classification of public sector entity rights and powers as assets. Responses to that question in the Phase 2 consultation paper, and resulting deliberations by the IPSASB on this matter may provide the basis for a more definitive view.	This is an issue to be considered in the CF, not elaborated on in this paper.
038	<p>Paragraph 8.1, pg. 11</p> <p>“ .... They also have rights over phenomena such as the electromagnetic spectrum.</p> <p><u>The electromagnetic spectrum extends from low frequencies used for modern radio to gamma radiation at the short-wavelength end. Governments frequently regulate the use of wavelengths within their territory and lease the rights to use specific frequencies in specific locations, both to protect those that have a legitimate social purpose in the use of a particular wavelength and to prevent unauthorized use of restricted public-purpose wavelengths that could result in risk to public health and safety.</u></p>	Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).

## COMMENTS ON SPECIFIC CHARACTERISTICS

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
002	<p>Refer to Para. 9.1 to 9.3</p> <p>What are the requirements for statistical accounting?</p> <p>The requirements of statistical accounting are varied. Examples are as follows:</p> <ul style="list-style-type: none"> <li>- range of data quantification i.e. fund balances</li> <li>- error rates in data entry/ preparation described by distributions like the Poisson or Normal Distributions</li> <li>- correlation of data and regression ; such as, National Income Accounting data and trends</li> <li>- probabilistic implications may be seen in Contingency Planning and Contingency Accounting</li> </ul>	Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).
005	We concur with this section and have no comments to add.	Staff notes agreement with ED.
009	National and general accounting rules coexist today and each set of rules has its own specific objectives. The Council encourages the IPSAS Board to continue its analysis of the differences between the two forms of reporting with a view to ensuring the understandability of the information produced.	Staff notes agreement with ED.
013	<p>Likewise, ACAG don't see the statistical bases of accounting as a "characteristic" itself but, rather, it is the form of accounting adopted in response to certain underlying characteristics that are referred to in Section 9 "Statistical Bases of Accounting":</p> <ul style="list-style-type: none"> <li>• <b>paragraph 9.1:</b> ACAG would suggest that the key characteristic is not the statistical bases of accounting but the importance of macro-economic analysis</li> <li>• <b>paragraph 9.2:</b> the key characteristic here is the need for statistical information organised into the four sub-sectors mentioned.</li> </ul>	Staff disagrees – statistical bases of accounting have a potential impact on financial reporting.
014	<p>For readers who are not already familiar with statistical/economic reporting, paragraphs 9.1 and 9.2 may not adequately explain why this discussion is important. They would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:</p> <p>9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized</p>	Staff agrees to consider the suggested change when redrafting the material.

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
	<p>macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.</p> <p>9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically sub-divided into four subsectors: central government, state government, local government and social security funds.</p>	
017	<p>As a consequence, the financial reporting implication relates to the consideration of statistical reporting in developing the IPSASB's Conceptual Framework.</p> <p>In particular, Finance identifies two major drivers for public sector statistical reporting:</p> <ol style="list-style-type: none"> <li>1. At an international level: Inter-government financial management arrangements; and</li> <li>2. At a national level: The critical role of government in economic management.</li> </ol> <p><u>Inter-Government Financial Management Arrangements</u></p> <p>Many national governments enter into financial arrangements with other governments and international organisations. These include memberships of the International Monetary Fund (IMF), World Bank and economic unions (such as the European Union (EU)) and other trading arrangements. These arrangements are fundamentally different from those applying to the private sector in that they do not necessarily seek to maximise financial advantage to the participating entities, rather goals include the promotion of international and domestic economic development, economic growth and the implementation of sound economic policies. Some of these international organisations may be providers of resources to governments.</p> <p>In the international sphere, statistical bases of accounting are the accepted standard for measuring and reporting fiscal information of governments. Eurostat in the EU, the IMF and World Bank all require reporting on these bases. Measurements of these variables may be used to determine eligibility for loans; members' contributions to global institutions and membership of economic unions. Examples include, membership contributions to the UN and IMF being based on economic size and strength, the EU setting a maximum budget deficit of 3% of economic output for member states in the eurozone and the possible imposition of economic performance targets by the IMF as a precondition for loans.</p> <p><u>A Critical Role of a Government Economic Management</u></p> <p>The size of Governments, their policy role in implementing fiscal and monetary policy and their impact on national economies are differentiating characteristics of the public sector. Even</p>	<p>Paragraph 2.7 noted that "international organizations are largely funded by inflows of a non-exchange nature. These may be governed by treaties and conventions or be made on a purely voluntary basis." Staff agrees that it might be worth adding that some international organizations may be providers of resources to governments.</p> <p>Staff considers that it should be noted that statistical bases of accounting are required to be used for measuring and reporting fiscal information of governments.</p>

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
	<p>in cases where government does not adopt an actively interventionist economic policy, the scale and complexity of Government operations usually have a far more significant impact on national economies than any single private entity, both through the contribution of government expenditures to national output and the impact on financial markets of government's management of its finances.</p> <p>Christine Lagarde, managing director of the IMF, recently highlighted the importance of Governments adopting appropriate economic policy settings in maintaining market confidence and promoting strong, sustainable and balanced growth.</p> <p>The statistical bases of accounting presentations have evolved to analyse, <i>inter alia</i>, the interactions between economic agents, the net investment/savings of government, the measurement of government debt and the contribution of different sectors of the economy to national output. Concepts underlying the statistical bases, such as the separation of valuation adjustment from other transactions, the division of the economy into institutional sectors, and the particular reporting formats used support this type of analysis.</p> <p><u>Statistical reporting not just for National Governments</u></p> <p>Although the significance of statistical reporting is easier to highlight with regards to national governments, it is important to note that statistical reporting is also applied to sub national level, including local governments. This reflects the critical role of public sector financial and economic management and its significant impact on the community.</p> <p><u>Financial Reporting Implications</u></p> <p>Both of the above characteristics are currently satisfied through financial reporting based on statistical concepts. The implication is that IPSASB will need to determine the relationship between this particular form of financial reporting and the scope of its own activities. Finance notes the Australian accounting standards require harmonisation between statistical and accounting bases or their inclusion in General Purpose Financial Reports (GPFRs).</p>	<p>Staff notes the recent initiation of a project on GFS alignment.</p>
018	<p>Statistical basis of accounting: this information is crucial for decision making and macro economic analysis and guidance may be required in the supplement like has been done for the European Union.</p>	<p>Not a specific comment on the ED. Staff considers it to be a comment in favor of the section as a key characteristic.</p>
021	<p>In the context of GPFR, and particularly general purpose financial statements (GPFS), the intended purpose and relevance of section 9 of this exposure draft is unclear, and the implications for financial reporting mentioned in the title of the exposure draft are unexplained. As currently drafted, this section seems only to inform readers that there are differences between IPSAS and statistical bases for reporting financial information and notes that despite the difference in their respective objectives considerable convergence has been achieved, whereas full convergence may not be feasible. In particular, if this section is to be useful in future standard setting, the last sentence needs to be explained further, as simply stating that developing definitions of elements is an area in which the requirements of statistical</p>	<p>Staff agrees with the suggested change proposed by Respondent #14. This change should address the Respondent's concerns.</p> <p>The IPSASB's views are sought on whether additional guidance is required on this issue.</p>

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
	accounting need to be considered is not enlightening. We suggest this section be enhanced to explain why statistical bases for reporting are relevant in the public sector and why and how this impacts GPFR and GPFS.	
022	To clarify the relationship between statistical reporting systems and accounting systems, add the following to the end of paragraph 9.1: "The data for these statistical reporting systems are generally extracted from the accounting systems maintained by the public sector entities." Also this paragraph understates the significance of statistical reporting. For example, all EU member states must report in accordance with ESA95; they may or may not choose to report in compliance with IPSAS. For the EU it is ESA95 reports that determine the compliance of governments with EU requirements; hence such reports are legally fulfilling the role that a commercial entity would be provided by IFRS compliant financial statements. This is an existential challenge to IPSAS which is not adequately addressed.	Staff considers this level of detail to be unnecessary in the ED.
023	In financial reporting for the private sector the rates of depreciation for taxation purposes are ignored because they are more likely to reflect government policy than a proper basis for asset measurement under GAAP. A similar parallel here would be GFS accounting.	Not a specific comment on the ED.
027	<p>I commend IFAC on the Exposure Draft, particularly section 9, <i>Statistical Basis of Accounting</i>. Aftermath of the financial crisis of 2008 reminds us that the power and continuity of public sector entities and governments cannot be assumed. The historically weak point is public sector debt.</p> <p>I believe that the nature of public sector debt should be conceptually explored to direct measurement, accounting and statistical reporting that supports timely identification and analysis of critical issues.</p> <p>For example, does it matter who owns public sector debt? Are the claims against the United States of America by China different in nature than the claims of its own Social Security and Medicare systems?</p> <p>How can global public sector debt be understood without complete, timely access to comparable data?</p> <p>Brief review of selected information indicates that data on public sector debt are not consistently defined, measured on the same date, available for all issuers from a single source, and downloadable for analysis. Public sector debt data for an issuer are not readily available by holder such as --</p> <ul style="list-style-type: none"> <li>Foreign government, foreign government agency or department, foreign central bank.</li> <li>Domestic central bank; domestic department, agency and other large domestic public entity.</li> <li>Domestic state or local government.</li> <li>Foreign private owners versus domestic private owners.</li> </ul>	Staff notes public sector debt may not always be a characteristic, depending on whether a government has significant debt. (i.e., its fiscal policy).

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
	<p>Pension funds for private entity retirees versus public entity retirees.</p> <p>Domestic and foreign: mutual funds, insurance companies, depository institutions, oil exporters.</p> <p>Consider adding a paragraph on public sector debt as a key characteristic including the identification of those categories that should be treated differently and if so how.</p> <p><b>NOTE: The response attachment is not included here but is available in the response letter.</b></p>	
028	<p>Paragraphs 9.1 and 9.2 provide a discussion of the relationship between financial reporting and statistical accounting. For readers who are not already familiar with statistical/economic reporting this may not adequately explain why this discussion is important. This section would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:</p> <p><i>9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.</i></p> <p><i>9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically sub-divided into four subsectors: central government, state government, local government and social security funds.</i></p>	<p>Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).</p>
035	<p>The Province cooperates with the Canadian government in supplying information under the System of National Accounts for the International Monetary Fund (IMF). The Province supports the IMF and other international agencies and is pleased to comply with the reporting requirements associated with membership in these agencies. However the Province is not accountable to the IMF, it is accountable only to the residents of the Province.</p> <p>While it is good financial management to develop accounting systems that provide information</p>	<p>Not a specific comment on the ED.</p>

R#	COMMENTS ON SECTION 9 – STATISTICAL BASES OF ACCOUNTING	STAFF COMMENTS
	for different purposes, all reporting to the IMF or related agencies is special purpose accounting and should not in any way influence general purpose accounting standards that impact the Province's accountability reporting to the public resident in our jurisdiction.	
037	<p>As mentioned above, a minority of HoTARAC members disagreed that statistical accounting is a key characteristic of the public sector. These HoTARAC members argue statistical information is also collected in relation to private sector entities. Further, these HoTARAC members believe that, in particular, at an individual public sector entity level, the statistical bases of accounting is irrelevant, given that its purpose relates only to macro economic analysis at a general government sector or whole of government level. In contrast, such HoTARAC members believe that the statistical bases of accounting should only be considered once it has been determined that a different disclosure, presentation, recognition or measurement requirement is appropriate for the public sector. This is consistent with the approach adopted in Australia in the document <i>Process for modifying IFRSs for PBE/NFP</i>: <a href="http://www.aasb.gov.au/admin/file/content102/c3/Mar_2010_Agenda_paper_B7.6_Process_for_modifying_IFRSs_for_PBE_NFP.pdf">http://www.aasb.gov.au/admin/file/content102/c3/Mar_2010_Agenda_paper_B7.6_Process_for_modifying_IFRSs_for_PBE_NFP.pdf</a></p>	<p>Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).</p> <p>Staff disagrees. While statistical information is collected in the private sector, it is not necessarily related directly to financial reporting. See response #14.</p> <p>This comment is broader than the ED and is an issue the IPSASB needs to consider in light of its current project on "alignment".</p>

## OTHER COMMENTS

R#	OTHER COMMENTS	STAFF COMMENTS
004	The content of the exposure draft should be more factual, i.e. it should avoid setting out the potential impacts of the public sector's characteristics on the conceptual framework and focus on the characteristics themselves. These impacts should be examined in the other phases of development of the IPSASB conceptual framework.	Noted, but the focus on areas with a potential impact on financial reporting helps to define and limit the scope of the ED.
004	Transparency in the presentation of decisions, events, activities, policies and results arises from the obligation of public sector accountability. In our view, this characteristic of the public sector should be added to the document's content.	Staff does not think that this needs to be explicitly stated. This issue is addressed in the CF Phase 1.
013	To reiterate, ACAG suggest that a full consideration of all the underlying factors may lead to different bases of accounting being used for general purpose financial reports (otherwise the argument seems to be: This is the basis of accounting we have used in the past, it serves a particular purpose and therefore we should lean towards using it for general purpose financial reporting in future.)	The CF is not constrained by existing requirements.
013	As mentioned above, ACAG are of the view that a much fuller background discussion would lead to a fuller identification of characteristics. With that caveat, one omission from the list of characteristics might be the obligation which most governments have to maintain social cohesion through the provision of social services, law and order, and the like. There are potential implications in terms of the recognition and measurement of obligations and liabilities where transactions are often the result of moral considerations rather than economic ones.	The issue of whether moral obligations give rise to liabilities has been considered in detail in Phase 2 of the CF.
013	A further omission may be the typical absence in the public sector of equity instruments and formal agreements which establish the rights and obligations of the various administrative units and other entities both between themselves and between them and the government as owner. One of the effects is that restructures, transfers of assets and some other transactions between entities cannot always be clearly categorised as being on capital or revenue account.	Phase 2 of the CF is considering whether ownership interests exist in the public sector.
018	Govt Accounting Reforms and the Millenium Development Goals (MDGs) could also be discussed in the supplement guide Social Value of Gove accounting: This could also be discussed in the supplement guide – <ul style="list-style-type: none"> <li>• Accurate record keeping</li> <li>• Directing policy makers and managers to problem areas</li> <li>• Providing information for decision making</li> <li>• Fighting against corruption etc</li> </ul>	CF—ED1 has proposed that the objectives of financial reporting by public sector entities are to provide information useful for accountability purposes and decision-making purposes. Staff notes the other issues, but does not think that it is necessary to discuss them in a paper of this length and with this limited purpose.
021	In our letter dated June 10, 2011 concerning Phase 3 of the Conceptual Framework Project, we questioned why fair value had not been given more attention as a measurement basis in	This is an issue which has been considered in the context of Phase 3 of



R#	OTHER COMMENTS	STAFF COMMENTS
	the discussion in this phase of the project, and suggested that a discussion of the merits and disadvantages of fair value would seem to be appropriate in this phase of the Framework. Such a discussion would be particularly useful if it were to identify public sector specifics to highlight where and why it would and would not likely be relevant for the IPSASB to consider fair value as a measurement basis.	the CF. Staff does not consider it appropriate to go into detail on fair value in this paper.
022	<p>Define liquidity, fiscal discipline, and fiscal sustainability so that the reader clearly understands the differences between the terms. The following definitions are suggested:</p> <ul style="list-style-type: none"> <li>i. <b>Liquidity</b>—a measure of the ability of a government to pay its debts as and when they fall due.</li> <li>ii. <b>Fiscal Discipline</b>--the ability of a government to operate within their legally approved budget.</li> <li>iii. <b>Fiscal Sustainability</b>—the extent to which current patterns of government spending do not undermine the capability of the government to continue to spend and achieve its public purposes in future years.</li> </ul>	<p>Specific drafting comments will be considered in the context of the IPSASB's decision on how the material should be published (SMC2).</p> <p>Item iii is addressed in the IPSASB project on long-term fiscal sustainability.</p>
023	<p><b>Non-financial reporting</b></p> <p>Given the need for non-financial measures in a not-for-profit environment, I am surprised that this was not considered a key characteristic. While private sector also has non-financial reporting issues (e.g., management commentary) I think the development of non-financial measures is critical to the measurement and assessment of levels and maintenance of service.</p> <p>The fact that non-financial measures was not highlighted in the document perhaps indicates that the ED has focused on characteristics of public sector, rather than the characteristics of users' needs in financial reporting. Clearly, both are important.</p>	<p>Paragraph 2.3 noted that users of public sector financial reports may need information on whether the entity has provided services in an efficient and effective manner.</p>
031	<p><b>Public accountability is the overriding characteristic of public sector entities and providing information to demonstrate such accountability is the primary objective of public sector reporting.</b></p> <p>It is crucial that the nature of public accountability as the primary driver for financial reporting in the public sector be further developed and emphasized in the IPSASB conceptual framework.</p> <p>Governments are elected through a democratic process to have certain rights, powers and responsibilities that require broad accountability to the public and their elected representatives. The governing bodies of many government organizations are appointed or elected; however, these organizations are part of government. They use public resources and may have been given delegated powers and responsibilities that also demand broad accountability to the public and their elected representatives.</p> <p>Broader accountability to the public and their elected representatives is expected from all</p>	<p>The CF Phase 1 has included accountability as one of the two objectives of financial reporting. Staff notes view that accountability needs to be considered in more detail.</p>

R#	OTHER COMMENTS	STAFF COMMENTS
	<p>public sector entities as a function of the democratic process (hereafter referred to as —public accountability).</p> <p>Public accountability requires a public sector entity to justify the raising and management of public resources and how the resources are used. Public accountability is based on the premise that the public has the —right to know (i.e., a right to receive openly declared facts that may lead to debates by the public and its elected representatives). Financial reporting plays a major role in fulfilling a public sector entity's duty to be publicly accountable.</p> <p>The case for public accountability as an overriding objective for public sector financial reporting must be made in the framework and it must be made strongly. Accountability must be described, its importance explained and supported and its implications for public sector financial reporting set out for scrutiny. The text of the Exposure Draft does not directly do this now. Yet the inclusion of compelling text on accountability is fundamental to crafting a conceptual framework that is tailored to the needs of the users of public sector financial reports. A similar weakness downplays accountability in the current Canadian framework and it will be addressed in PSAB's current project, <i>Concepts Underlying Financial Performance</i>.</p> <p>In addition, we note that, other than the statistical basis of accounting, the key characteristics identified in the Exposure Draft all add to the case that public accountability is the overriding characteristic of the public sector.</p>	
031	<p><b>Operating and financial frameworks set by legislation need to be reflected in the key characteristics.</b></p> <p>The Exposure Draft does not mention the pervasiveness of the legal frameworks within which government must work.</p> <p>Public sector entities must operate within and illustrate their compliance with legal requirements — not merely in the sense of engaging only in legal activities but also in the sense that the specifics of their operating and financial frameworks are set out in, or flow from, legislation. Compliance with those frameworks is mandated and public accountability reporting of compliance with the letter and spirit of those frameworks is integral to the requirements. All of the activities of governments and their organizations (including the nature and level of expenses/expenditures) and the financing of those activities are established in legislation. Transparent and public accountability against the promises and policies set out in legislation is fundamental to public sector reporting.</p> <p>These legal requirements and public accountability go hand in hand; they are a function of the democratic system. The legal requirements have evolved to be the checks and balances that assist a government in remaining publicly accountable.</p>	Need for information on accountability with legal requirements noted.
036	<p><b>Intergenerational aspects</b></p> <p>The financial reporting should also permit a statement as to whether or not expenditures are fairly allocated to the generations. This requires that they (a) provide information about the</p>	Intergeneration equity is an aspect of the provision of prospective information that has been discussed in CF—ED1.

R#	OTHER COMMENTS	STAFF COMMENTS
	temporal allocation of the financing of administrative assets; (b) permit the analysis and calculation of a possible structural (business cycle adjusted) surplus or deficit. They should thus show whether the equivalence principle is being observed. This also applies for goods and services in the public sector that are geared more to the private sector, and are financed by charges. In this way it also becomes clear that the financial performance statement is more important than the financial position statement.	As indicated in earlier comments staff considers that there are risks in asserting the primacy of the statement of financial performance over the statement of financial position.
036	<b>Control of cooperation with other governments</b> A peculiarity of the public sector is also the many relationships between governments, whether horizontally or vertically. This, in particular in connection with transfers (for example fiscal equalisation) or the allocation of tasks between regional jurisdictions (for example in questions of asylum). The financial reporting should therefore enable control of these relationships.	Noted. Section 2 notes that some public sector entities are dependent upon transfers from entities at other levels of government.
036	<b>Equity of controlled entities</b> The financial means provided by governments to an entity that performs an outsourced state function without seeking to make a profit are not as a rule equivalent to risk capital. Frequently they are only funds to finance a service through another entity. For this reason, in these cases, the information in the financial reporting should reflect only the financing costs.	Phase 2 of the CF is considering whether ownership interests exist in the public sector.
036	<b>Scope of consolidation – control principle</b> In determining the scope of consolidation at present no differences are made between the public and the private sectors. A government can control significant public corporations (GBEs), which operate in areas, which differ substantially from the tasks of government. Examples are bank groups with commercial operations, telecom suppliers, logistics groups. In many cases the inclusion of these corporations in the consolidated accounts makes a statement that is useless for control of the budget. The Swiss Governments (e.g. the Swiss Confederation) frequently refrain voluntarily from control over such investments to avoid intervening in the private sector. The present consolidation standards (IPSAS 6-8) derive from the convergence programme. Scarcely any exceptions were made to IAS 27, IAS 28 and IAS 32. After the new consolidation standards have been put into force by the IASB (they are now being revised), the IPSASB should consider removing these standards from the convergence programme and developing its own consolidation standards or using them as a basis, but making more extensive variations from the new IFRS. In contrast to the private sector, in the public sector consolidated accounts do not have the same importance.	Phase 1 deals with the reporting boundary and the basis of its determination
037	HoTARAC recommends the following issues relating to the key characteristics be included in the document, either as standalone topics, or as additional commentary on the topics included in the ED:	Noted. While Phase 1 notes that the scope of financial reporting will develop in response to user needs there is no

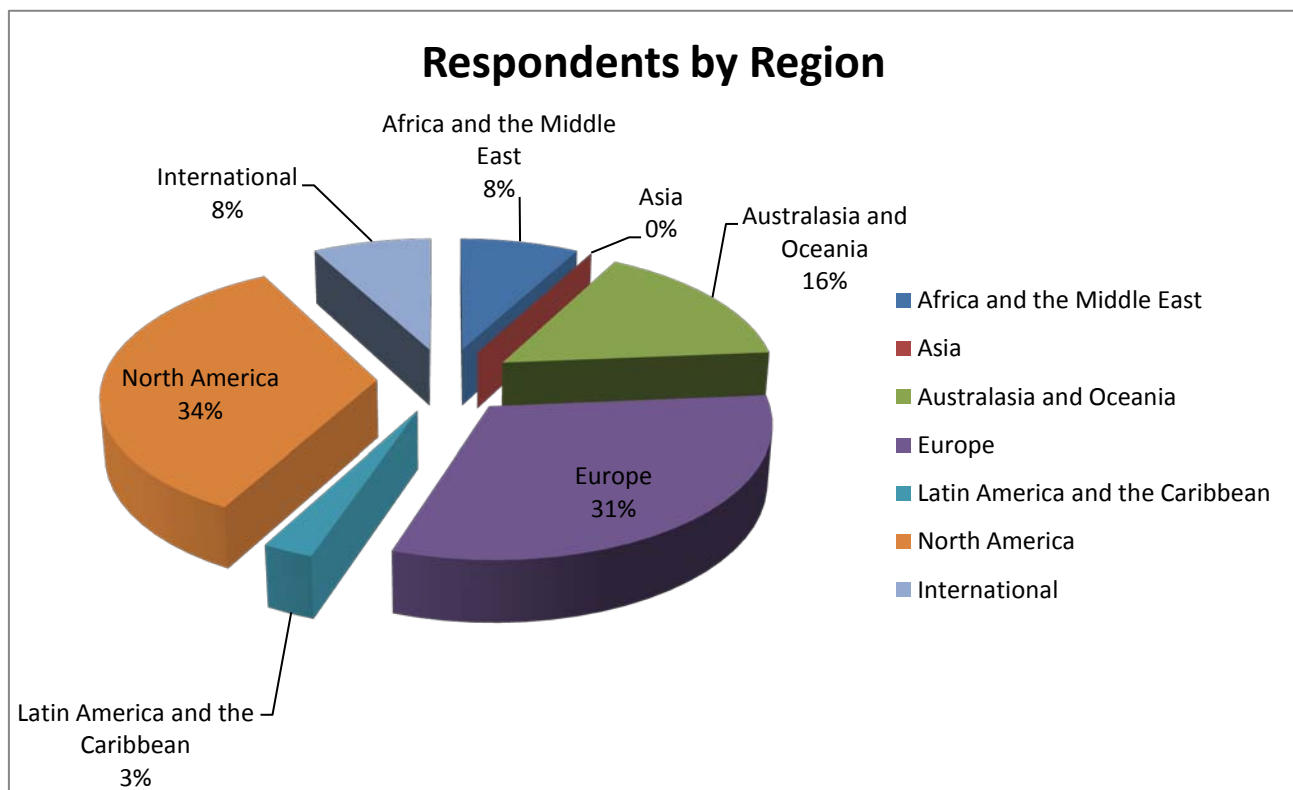
R#	OTHER COMMENTS	STAFF COMMENTS
	<p><b>2. Broader Role of General Purpose Financial Reports in the Public Sector</b></p> <p>It would be useful for the ED to distinguish the public sector environment from the private sector in relation to the significant fiduciary and accountability responsibilities in managing and distributing public resources. This characteristic in particular relates to considerations of a meaningful General Purpose Financial Reports (GPFRs) for users.</p> <p>Unlike the private sector, evaluation of this primary responsibility of the public sector may require a different or broader scope of financial reporting as the traditional accounting measure of profitability and net assets may not necessarily be the most appropriate metric for measuring the performance of public sector against these responsibilities.</p> <p>Separate, complementary non-financial performance reports may need to be prepared by the public sector especially when also considering the ED Item 3 on "The Importance of Budgets". The presentation formats of traditional financial statements generally do not align with the typical presentation formats of budget program announcements. In some Australian jurisdictions the primary document used to present and assess the performance of the government/Ministers against the budget is presented in the Budget Paper on Service Delivery, rather than the Budget Paper containing the estimated financial statements. The service delivery presentation in one Australian jurisdiction includes four measures, three non-financial and one related to cost. Information regarding estimated key fiscal aggregates such as net debt is however sourced from the financial statements.</p> <p>As the ED acknowledges in paragraph 2.3 that "...users of financial reports of public sector entities, may have broader information needs than users of financial reports of private sector entities." including "(a) has the entity provided its services in an efficient and effective manner?" A GPFR without consideration of other non-financial metrics is unlikely to provide public sector report users with this information.</p> <p>Environmental considerations are increasingly important aspect of the measurement of organisational achievement. This is reflected in the reporting of the 'triple bottom line' (economic, social, environmental) and its potential inclusion in a broader IPSASB GPFR notion. Environmental accounting is particularly relevant to the public sector, where organisational goals are often perceived as acting in the public good, rather than profitmaximisation.</p> <p><b>Financial Reporting Implications</b></p> <p>HoTARAC considers the breadth of information provided in public sector GPFRs a key characteristic of the public sector. Inclusion of this characteristic in the ED will provide an important nexus between this document and IPSASB's Conceptual Framework project. This supports the IPSASB's conclusion in the exposure draft <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity</i> that public sector GPFRs are more comprehensive than just financial statements and include a broad range of financial and</p>	<p>consensus as to the precise boundary of general purpose reporting and in particular whether environmental reporting should be within the that boundary rather than being an aspect of reporting outside the GPFRs.</p>

R#	OTHER COMMENTS	STAFF COMMENTS
	non-financial quantitative and qualitative information.	
037	<p>HoTARAC recommends the following issues relating to the key characteristics be included in the document, either as standalone topics, or as additional commentary on the topics included in the ED:</p> <p><b>1. Risk sharing of Government</b></p> <p>Governments are usually able to access capital markets at lower interest rates than entities in the private sector. In turn, the government often leverage their borrowing power to provide guarantees to entities in the private sector and may enter into arrangements with the private sector to provide infrastructure through service concessional arrangements.</p> <p>In addition, governments often act in the capacity as insurers of last resort. In these instances, governments are often unable to transfer risk to the private sector through reinsurance, as a private insurer may be unwilling to provide insurance or may demand an excessive premium.</p> <p><b>Financial Reporting Implications:</b></p> <p>As noted in the ED, the absence of markets and the specialisation of assets may have implication for the measurement of assets (4.2). Specifically, in assessing the present value of service concession arrangements and other infrastructure projects valuation may differ between private and public sector entity depending on who controls the assets due to the use of income valuation techniques where entities are using different discount rates. Assets created under these arrangements are usually highly specialised with no active markets; consequently, determination of fair value will usually be achieved by using the income or depreciated replacement cost valuation method as a proxy to market value.</p> <p>The impact of different public and private sector asset valuations may be justified if an operating capacity concept of capital (as discussed in the Consultation Paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities</i>) is employed so public sector valuations are more linked to entry prices and entity specific valuation inputs.</p> <p>The lack of a secondary market for the government insurance and government guarantees may complicate the valuation of such obligations. Disclosure in these circumstances may default to the contingencies' schedule, making this schedule a critical component of the financial statements.</p>	<p>Staff acknowledges these issues, but does not think that they are general enough to warrant inclusion. For example, although many governments will be able to access capital markets at lower interest rates than private sector entities this is not a general characteristic of all governments- as the sovereign debt crisis has demonstrated.</p>

## Analysis of Responses to ED - Key Characteristics of the Public Sector with Implications for Financial Reporting

### Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	1, 10, 18	3
Asia		0
Australasia and Oceania	3, 13, 17, 23, 33, 37	6
Europe	5, 6, 7, 9, 11, 12, 14, 15, 20, 21, 24, 36	12
Latin America and the Caribbean	16	1
North America	2, 4, 8, 19, 25, 27, 29, 30, 31, 32, 34, 35, 38	13
International	22, 26, 28	3
<b>Total</b>		<b>38</b>

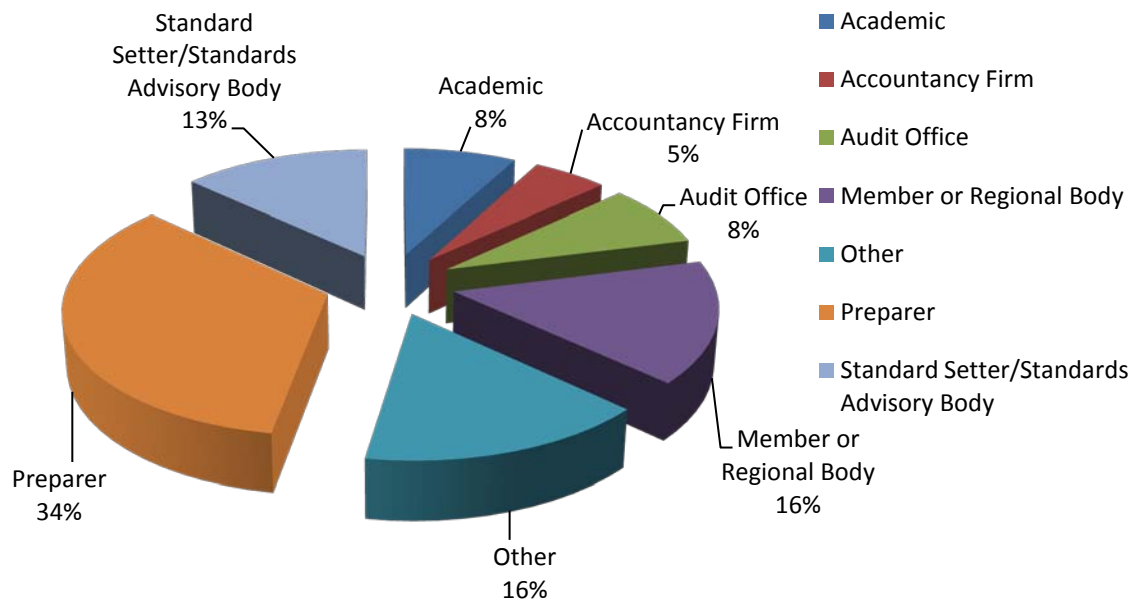


## Analysis of Responses to ED - Key Characteristics of the Public Sector with Implications for Financial Reporting

### Functional Breakdown

Function	Respondents	Total
Academic	2, 23, 24	3
Accountancy Firm	5, 20	2
Audit Office	6, 13, 15	3
Member or Regional Body	3, 10, 12, 14, 21, 28	6
Other	16, 18, 19, 22, 27, 38	6
Preparer	4, 7, 8, 11, 17, 25, 26, 29, 30, 32, 34, 35, 37	13
Standard Setter/Standards Advisory Body	1, 9, 31, 33, 36	5
<b>Total</b>		<b>38</b>

### Respondents by Function



## Analysis of Responses to ED - Key Characteristics of the Public Sector with Implications for Financial Reporting

### Linguistic Breakdown:

Language	Respondents
English-Speaking	1, 2, 3, 5, 11, 12, 13, 14, 17, 19, 20, 23, 25, 27, 29, 30, 31, 33, 34, 35, 37, 38
Non-English Speaking	4, 6, 7, 9, 10, 15, 16, 18, 21, 24, 32, 36
Combination of English and Other <sup>1</sup>	8, 22, 26, 28
<b>Total</b>	

<sup>1</sup> Government of Canada operates in Canada's two official languages (English and French).

