



*Advancing  
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January 31, 2013

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

Dear Ms. Fox:

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 November 2012 Exposure Draft 2 - *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (ED). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The ED proposes definitions of elements used in general purpose financial statements of governments and other public sector entities. The elements are specified in paragraph 1.4 of the ED as Assets, Liabilities, Revenues, Expenses, Deferred Inflows, Deferred Outflows, Ownership Contributions and Ownership Distributions. The FMSB has reviewed the ED as well as the additional sections entitled Basis for Conclusions and Alternative Views. The FMSB agrees with most of the definitions proposed by the IPSASB's for the elements specified in paragraph 1.4 of the ED. However we have some concerns regarding part of the proposed definition for liabilities and we do not agree that Ownership Contributions and Ownership Distributions should be defined as elements. Our concerns are expressed in our answers to the Specific Matters for Comment that follows.

### **Specific Matter for Comment 1**

Do you agree with the definition of an asset? If not, how would you modify it?

**FMSB Response** – Paragraph 2.1 of the ED defines an asset as "... a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls and which arises from a past event." We find that the IPSASB's definition of an asset aligns very closely with the definitions used for assets by the Government Accounting Standards Board (GASB) and the Federal Accounting Standards



Advisory Board (FASAB). In paragraph 8 of Concept Statement 4, GASB defines an asset as, “...resources with present service capacity that the government presently controls.” FASAB, in Statement of Federal Financial Accounting Concepts 5 defines an asset as, “...a resource that embodies economic benefits or services that the federal government controls.” The IPSASB’s definition incorporates the key concepts that an asset is a resource that has a service potential and is controlled by the government. Therefore, we agree with the definition of an asset as proposed by IPSASB.

## **Specific Matter for Comment 2**

(a) Do you agree with the definition of a liability? If not, how would you modify it?

**FMSB Response** – The FMSB is concerned about the IPSASB’s definition of a liability as provided in Paragraph 3.1 of the ED. Paragraph 3.1 defines a liability as, “... a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.” We believe the phrase “... little or no realistic alternative...” would raise more questions than it would answer.

Governments, especially national governments, have sovereign powers that provide them with a whole host of alternatives, all of which are within the realistic range. We do note and agree with the second sentence in paragraph 3.9 stating that sovereign power should not be used as a rationale for non-recognition; however, we believe that the definition would be effective without this phrase. For example, the definition could be as follows: “a liability is a present obligation that arises from a past event requiring a government entity to deliver services or economic benefits to another entity at a determinable date, when a specific event occurs, or on demand.” The key liability concept is that a present obligation exists based on a past transaction or event, not whether the government has a “realistic alternative.” The government may well have a “realistic alternative” and yet have a liability based on other imperatives.

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

**FMSB Response** – Paragraph 3.2 defines a “present obligation” as a legal or non-legal binding requirement which an entity has little or no realistic alternative to avoid that requires an entity to deliver services or economic benefits to another party.”

Generally, the emphasis in the liability discussion on legal vs. “non-legal binding” obligations is troublesome. The pervasive emphasis on legal enforceability renders the process overly judicial in nature. When deciding whether an obligation meets the definition of a liability, legal enforceability is, of course, a consideration. But the concept statement focuses on legal process rather than on whether a present obligation exists based on a law or an agreement or understanding between the government and another entity.

Moreover, we are concerned with some of the guidance and terminology used by IPSASB paragraphs 3.10 through 3.12. These paragraphs discuss the factors to be considered when deciding if an obligation that is not legally enforceable warrants recognition as a liability. We believe that this guidance presents conceptual issues. Paragraph 3.10 states that an obligation giving rise to a liability has the following attributes: (a) a pattern of past practice (b) that creates “a valid expectation” ... (c) that the entity has little or no realistic alternative to avoid .... Who would decide when a “valid expectation” exists and how do they do so? Again, what is a “realistic alternative” and how would the preparer decide when it existed? In addition, paragraph 3.12 (a) provides that a non-legal binding obligation may arise if a majority government announces that it is committed to introduce and secure passage of necessary budget provisions related to an event or circumstance. We believe that this may result in premature recognition of an obligation as a liability as it provides for an obligation to occur even before a budget or bill has been enacted into law. Such issues should be addressed at the standard-setting level. We recommend that this guidance be more conceptual in nature and less prescriptive.

### **Specific Matters for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

**FMSB Response** - The FMSB agrees with the definition of revenue proposed.

### **Specific Matter for Comment 4**

Do you agree with the definition of expenses? If not, how would you modify it?

**FMSB Response** -The FMSB agrees with the definition of expenses proposed.

### **Specific Matter for Comment 5**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
  - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not? 4
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

**FMSB Response** – We agree with the decision to define deferred inflows and deferred outflows as elements as well as the decision to restrict those definitions to non-exchange transactions.

### **Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

**FMSB Response** - We agree with the IPSASB's proposal to use the terms net assets and net financial position and the definitions proposed for these terms.

- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

**FMSB Response-** The FMSB does not agree with the decision to define ownership contributions and ownership distributions as elements. The term owner or ownership is not a term that is normally associated with public sector financial reporting. In most public sector settings, ownership, if the term were used, would be attributed to the citizens governed by the public sector entity. If a government accepted funds contributed from another entity (such as a group of allied governments), it would be inappropriate to term the contribution as an ownership interest.

Ultimately, if ownership contributions/distributions were a fundamental part of a government entity, it could be displayed as a sub-category of net position.

- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

**FMSB Response** - We disagree, see above.

- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

**FMSB Response** – We believe that ownership interests should not be defined.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org).

Sincerely,

A handwritten signature in black ink, appearing to be 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired  
AGA National President



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Financial Management Standards Board**

**July 2012 – June 2013**

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Steven E. Sossei, Staff Liaison, AGA

## **Component Evaluation: Exposure Draft Phase 2 of 4 – Elements and Recognition in Financial Statements: Specific Matters for Comment**

### **Specific Matter for Comment 1**

*Do you agree with the definition of an asset? If not, how would you modify it?*

Yes, we agree with the definition of an asset in paragraph 2.1.

### **Specific Matter for Comment 2**

*(a) Do you agree with the definition of a liability? If not, how would you modify it?*

Yes, we agree with the definition of a liability given in paragraph 3.1.

*(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

Yes, we agree with the description of a non-legal binding obligation in paragraph 3.10

### **Specific Matter for Comment 3**

*Do you agree with the definition of revenue? If not, how would you modify it?*

Yes, we agree with the definition of revenue.

### **Specific Matter for Comment 4**

*Do you agree with the definition of expenses? If not, how would you modify it?*

Yes, we agree with the definition of expenses.

### **Specific Matter for Comment 5**

*(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*

We do not agree with the decision to define deferred inflows and deferred outflows as elements. Deferred inflows and deferred outflows fit with in the existing definitions and treatment of assets and liabilities other than that they refer specifically to non-exchange transactions.

Unless there was a very clear advantage to having these elements separately defined we feel that it will only serve to confuse readers of the financial statements.

*(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:*

*(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?*

Yes, if deferred inflows and deferred outflows are to be included they should be restricted to non-exchange transactions.

*(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

If the decision is made to retain the deferred inflows and deferred outflows elements we have no issue with the definitions given.

### **Specific Matter for Comment 6**

*(a) Do you agree with the terms net assets and net financial position and the definitions?*

Yes, if deferred inflows and deferred outflows remain as elements there will need to be a new defined term to explain whether the resulting net position includes them or not. The term 'Net Assets' clarifies that the term is focussing on assets and liabilities.

*If not, how would you modify the terms and/or definitions?*

*(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

Yes we agree with the decision to define ownership contributions and ownership distributions.

*(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*

Yes we agree with the definitions of ownership contributions and ownership distributions.

*(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

No, ownership interests do not need to be specifically defined as the ownership interest is simply the net financial position.

#### **Specific Matter for Comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

We agree with the discussion on recognition and the decision to not include recognition criteria in the definitions of the elements.



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12 March 2013

Ms Stephanie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
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Canada

Submitted to [www.ifac.org](http://www.ifac.org)

Dear Stephanie

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

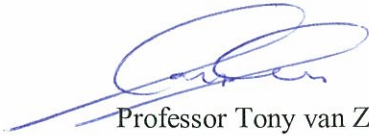
As academics at the School of Accounting and Commercial Law in Victoria University of Wellington, we are pleased to make a submission on the above-titled Exposure Draft.

We are encouraged by the progress that the International Public Sector Accounting Standards Board (IPSASB) is making towards a full conceptual framework to underpin the standards issued by the Board. As you will note from the below comments, we are generally in agreement with the tenor of the Exposure Draft. However, we do not agree with the decision to define deferred inflows and deferred outflows as elements. We provide the reasons for this in specific matter for comment 5 below. We encourage the IPSASB to reflect on these arguments and to revisit their decision not to use presentation as a method to deal with issues such as non-exchange transactions that span multiple periods. We believe a presentational approach would be more helpful to users and would minimise differences across the sectors in the accounting methods employed.

We note that the International Accounting Standards Board (IASB) has also re-started its Conceptual Framework project and encourage the IPSASB to reconsider its Exposure Draft in the light of the IASB project. We think the definitions of elements should be aligned as far as possible with the IASB, but we accept that some difference may be necessary if the IASB defines the elements more narrowly than would be appropriate in the public sector environment.

We strongly encourage the IPSASB to re-issue an exposure draft on elements and recognition when these matters have been considered fully.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tony van Zijl', with a large, stylized loop at the end.

Professor Tony van Zijl  
Professor Kevin Simpkins  
Dr Rodney Dormer  
Dr Carolyn Cordery  
School of Accounting and Commercial Law  
Victoria University of Wellington

CC: New Zealand Accounting Standards Board

**Specific Matter for Comment 1:** Do you agree with the definition of an asset? If not, how would you modify it?

1. We agree that the definition of an asset should specifically include items which provide inflows of service potential in addition to economic benefits. We specifically support the explanation in paragraph 2.3 that service potential enables an entity to achieve its objectives without necessarily generating cash flows.
2. We believe that the ability to control the asset should lead to recognition of that asset. Nevertheless, we note that the IASB Conceptual Framework project is recommending that the control test is applied at the recognition stage, rather than when the entity decides whether it has an asset or not. We encourage the IPSASB to monitor the IASB project and seek alignment across Conceptual Frameworks where the differences between elements are not due to the differences between the for-profit and not-for-profit objectives of entities.
3. We do not consider it necessary that the definition of an asset include the need that the resource “arises from a past event”. If the resource is controlled by the entity it is an asset. How it came to be controlled is not relevant.
4. We urge caution in the inclusion of “the ability to deny or restrict access to the resource” in the indicators of control (paragraph 2.7). We think there is a risk that such an indicator could be argued to exclude public roads, parks, public walks and the like from falling within the definition of assets. That would be inappropriate. Further elaboration may be required so that an asset can be recognised when the entity has “the ability to deny the transfer of ownership or the rights to ownership” or is able to “regulate the use of the resource” or is “responsible for protecting and/or maintaining the service potential of the resource”.

**Specific Matter for Comment 2:**

- (a) Do you agree with the definition of a liability? If not, how would you modify it?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

1. We generally agree with the definition of a liability. The brief discussion on legal and non-legal binding obligations is helpful in the context of the public sector.
2. We note at specific matter for comment 5, however, that the notion of a non-legal binding obligation is similar to items proposed for deferred inflows. In this case, we would prefer that the liability included non-legal binding obligations as proposed.
3. We do not consider it necessary that the definition of a liability (or asset) include the need that the present obligation “arises from a past event”. If the obligation exists, it is a liability. How it came to be a liability is not relevant.
4. We specifically support the guidance at paragraph 3.9 in relation to sovereign powers. We agree that sovereign power is not a rationale for the non-recognition of obligations that otherwise meet the definition of a liability. This approach aligns with best practice but it is helpful that it is specifically stated in the IPSASB conceptual framework.



**Specific Matter for Comment 3:** Do you agree with the definition of revenue? If not, how would you modify it? **AND Specific Matter for Comment 4:** Do you agree with the definition of expenses? If not, how would you modify it?

1. As noted in our submission in 2011 to the prior IPSASB Consultation Paper, we believe that the statements of revenue and expenditure should include other comprehensive income so that users can appreciate a layering of performance – items that have occurred due to changes in assets and liabilities (in value or recognition) and items that are a result of ‘trading’ (ordinary course of business). Therefore, we prefer definitions of revenue and expenses which encompass all changes in value of assets and liabilities as well as from operations, but we do not agree with the need for new elements. (See our comments on Specific Matter for Comment 5.)
2. We note (from BC38) the IPSASB decided that gains and losses from trading and gains and losses outside the ordinary course of operations are not separate elements. Nevertheless, we believe that the introduction of deferred inflows and outflows does introduce new elements for a portion of this, and (as noted below) we believe that the issue which we understand has led IPSASB to introduce the new elements is best addressed through presentation, rather than through new elements.
3. We note the statement at paragraph 4.7 that the difference between revenues and expenses is the entity’s surplus or deficit for the period, which is the primary indicator of financial performance. We think this statement should be given greater prominence and be elaborated further if IPSASB maintains its current approach to defining revenue and expenses. However we think that the introduction of the new elements fails to meet the key objective which lies in this statement. That is because the surplus or deficit includes all other elements of comprehensive income (which, notwithstanding the IASB and IPSASB’s failure to develop coherent and consistent requirements regarding such items, are generally items which will confound the messages about the *current reporting period*). Furthermore the requirement that inflows and outflows relating to future reporting periods are treated within revenues and expenses (and not as deferred items) creates a significant degree of arbitrariness in the application of the requirements and the meaning therefore conveyed by the surplus or deficit.

**Specific Matter for Comment 5:**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
  - (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the
    - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
    - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?
1. It is apparent that the use of deferred inflows and outflows is a way to introduce a link between different capacities within the financial statements. Deferred outflows do not meet the definition of an asset; however it is possible that an item which could be considered to be a deferred inflow could constitute either a liability or a deferred inflow. For example, funds received in advance are part of the future years’ operating capacity (proposed deferred inflow); yet these funds could also meet the proposed definition of a liability as it is likely

that an entity that receives funds in advance would (by its past practice or a lack of alternatives) settle the obligation arising from receiving funds in advance. Accordingly, introducing the notion of a deferred inflow for these funds would give rise to confusion as to whether these funds should be a liability or a deferred inflow.

2. As noted above, we believe that the items that would potentially be recorded as deferred inflows and outflows are a subset of transactions and events that are outside the ordinary course of operations. As noted in BC38 of the Exposure Draft, these provide useful information for users of the financial statements. Nevertheless, by restricting the definition to non-exchange transactions alone, these financial statements will only partially achieve usefulness for users. Revenue and expenditure should include all gains and losses and the transactions from the ordinary course of business and those that are not, and the layered meaning that we think IPSASB is seeking to create should be dealt with as a matter of presentation.
3. As best we are aware the term non-exchange transactions is not defined in the document. It is essential that the term be clearly defined in the conceptual framework if IPSASB chooses to maintain this limiting aspect of deferred inflows and outflows or uses the term in any other way.

**Specific Matter for Comment 6:**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
  - (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
  - (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
  - (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?
1. It is useful for the Conceptual Framework to define all relevant elements. Therefore, assuming IPSASB maintains the deferred elements, we agree that there should be (separate) definitions of these terms. However if the deferred elements are removed as we prefer, consideration would need to be given to whether the terms were needed (or were the most appropriate) dependent on the approach taken to addressing the crucial presentation of layers of financial performance.

**Specific Matter for Comment 7:** Do you agree with the discussion on recognition? If not, how would you modify it?

1. We agree with the discussion on recognition; however recognition uncertainty may be addressed separately by the IASB in their Conceptual Framework project (especially in relation to control as noted in our answer to Specific Comment 1, para 2). A difference between these frameworks, other than differences that arise due to differences between for-profit and not-for-profit objectives of entities, would be unhelpful.



**Other Comments:**

1. We note with concern the number of times IPSASB discusses an issue in the Basis for Conclusions and concludes that the matter will be addressed at standards-level. Our concern is that the purpose of a conceptual framework is to provide guidance on how issues will be addressed at standards level. We interpret the discussion on these matters (e.g. at BC6., BC7., BC22. and BC24.) as confirming that the concepts developed to date do not provide the necessary guidance to assist the standard-setter at the standards-level. That being the case the necessary concepts will presumably be developed when standards are developed. We think IPSASB needs to do further work on at least some of these issues to provide the necessary conceptual underpinnings for later standards-level decisions.
2. We are strongly of the view that because of the fundamental nature of the attempted focus on current year activities and the consequent proposal to introduce the two new elements and that there are still so many unresolved issues in developing these ideas, a further exposure draft should be issued after the ideas have been developed further. This view is held whether or not IPSASB accepts our view that such new elements are not necessary and that a presentation approach should be taken to communicating the current year focus, or if the deferred elements are retained and developed more fully.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

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Registrar/Chief Executive  
O.A. ADEPATE, B.Sc, MBA, FCA

March 19, 2013

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board (IPSASB)  
259 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
NY 10017

Dear Stephenie,

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

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above exposure draft and is pleased to submit its comments.

The Institute focused on specific areas required for comments. Where the Institute agrees with the improvements set out under each of the areas commented upon, it has affirmed them. However, where the Institute disagrees, it has also clearly indicated so and has provided its underlying reason(s) for the disagreement

The Institute is particularly pleased to note the increased attention by the International Public Sector Accounting Standards Board (IPSASB) being paid to development of more transparent and wider acceptable accounting standards for the public sector, particularly at this time when concerns are growing for a more robust system and standards of accounting in the public sector across the world.



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Detailed below are the Institute's comments in the context of the Conceptual framework Exposure Draft 2.

## Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

**We agree.**

## Specific Matter for Comment 2

- a) Do you agree with the definition of a liability? If not, how would you modify it?
- b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

**We agree.**

## Specific Matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

**We agree.**

## Specific Matter for Comment 4

Do you agree with the definition of expense? If not, how would you modify it?

**We agree.**





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## Specific Matter for Comment 5

- a) Do you agree with the decision to define deferred inflows and defined outflows as elements? If not, why not?
- b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you with the :
  - i) Decisions to restrict those definitions to non-exchange transactions? If not, why not?
  - ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

**We agree.**

## Specific Matter for Comment 6

- a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or the definitions?

**We agree.**

- b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

**We agree.**

- c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?



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## Comment

We suggest that the '*external parties*' referred to in the definitions of both ownership contributions and ownership distributions be clearly identified and stated.

**Reason:** to avoid any ambiguity as to the identity of the external parties.

We are of the opinion that the *external parties* referred to here are the *relevant government agencies* since the discussing is about public sector in the case of Ministries, Departments and Agencies.

However, the issue of who constitute the external parties when discussing about government itself (Federal, State or Local) should be made clearer by the standard.

d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

## Comment:

We are of the opinion that *ownership interest* should be defined as stated in BC 48 which states *"the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver goods and services in the future and in the resources that may be available for redirection, restructuring or alternative disposition"*.

**Reason:** users of financial statement are keenly interested in *ownership interest*.





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O.A. ADEPATE, B.Sc, MBA, FCA

In addition, some public sectors are not owned 100% by Government, there is therefore the need to also define minority interest ownerships or non-controlling interest.

## Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

**We agree.**

We thank you for giving the Institute the opportunity to contribute to the work of the Board.

Yours sincerely,

Mukaila A. Lawal

For: Acting Registrar/Chief Executive

## Swiss Comments to

## Exposure Draft Conceptual Framework 2: Elements and Recognition in Financial Statements

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed *Exposure Draft Conceptual Framework 2: Elements and Recognition in Financial Statements* and comments as follows.

## 2. General Remarks

The SRS-CSPCP finds the *Exposure Draft* to be considerably more comprehensible than the preceding *Consultation Paper*. But the question arises why new elements, such as *deferred outflows*, *deferred inflows*, *ownership contributions* and *ownership distributions* appear and what weighting is attributed to them. The IPSASB does not comment on this, which is regrettable. The SRS-CSPCP is of the opinion that in Section 1.4. items e) to h) are not to be defined as elements, because they do not have the same significance in accounting and therefore for financial statements as the elements mentioned in items a) to d). Equity should be added to the list of elements, as new item c) between *Assets/Liabilities* and *Expenses/Revenues*. The definitions of *Assets* and *Liabilities* must be widened in order that *deferred inflows* and *deferred outflows* can be included into them.

### 2.1 Specific Matter of Comment 1

***Do you agree with the definition of an Asset? If not, how would you modify it ?***

The important characteristics of an asset are included in the definition: *resource, service potential, economic benefits, control and past event*.

In Switzerland a distinction is made between Administrative Assets and Non-Administrative Assets. Administrative Assets serve the direct fulfilment of public sector duties (i.e. provision of public services) and as a rule are subject to credits (appropriations) being approved by Parliament. On the other hand Non-Administrative Assets comprise all assets that are freely disposable, i.e. are not bound to the fulfilment of a duty (cash, financial investments, etc.). As a rule competence over Non-Administrative Assets lies with the administration. Even if we know that the distinction between Administrative and Non-Administrative Assets is scarcely used in other countries, it seems to us important to retain this distinction for Switzerland. Even though Switzerland does not expect that such a distinction will appear in the IPSAS standards. But it is compatible with the characteristics listed in this ED. In effect *service potential* is facilitated by the *administrative assets*, whereas *economic benefits* are facilitated by the *non-administrative assets*.

In the extended definition (compared with the Consultation Paper) place is found for the capitalized investment grants (*grants for capital expenses*). In Section 2.7. it should be mentioned that the conditions a) to d) do not *all* have to be fulfilled for the criterion of control to be fulfilled. Additionally the definition of an asset must be extended to take into account *deferred inflows*.



## 2.2 Specific Matter of Comment 2

***a) Do you agree with the definition of liability ? If not, how would you modify it ?***

The most important characteristics of a liability are included in the definition: *present obligation, past event, no realistic alternative to avoid, outflow of service potential or economic benefits*. Additionally the definition of a liability must be extended to take into account *deferred outflows*

***b) Do you agree with the definition of non-legal binding obligations? If not, how would you modify it?***

Yes. Deferred outflows should also be treated as non-legal binding obligations.

## 2.3 Specific Matter of Comment 3

***Do you agree with the definition of revenue? If not, how would you modify it?***

- a) As proposed, *ownership contributions* should not be included in *revenue*. But *increases in deferred inflows* and *decreases in deferred outflows* should be included, because they are revenues.
- b) Because, as mentioned above, *deferred inflows* belong to revenues, Heading b) should be excluded.

## 2.4 Specific Matter of Comment 4

***Do you agree with the definition of expenses? If not, how would you modify it?***

- a) As proposed, ownership distributions should not be included in *expenses*. But *increases in deferred outflows* and *decreases in deferred inflows* should be included, because they are expenses.
- b) Because, as mentioned above, *deferred outflows* belong to expenses, Heading b) should be excluded.

## 2.5 Specific Matter of Comment 5

***a) Do you agree with the decision to define deferred inflows and deferred outflows as elements ? If not, why not ?***

*Deferred inflows* and *deferred outflows* should not be defined as elements. Assets and liabilities are the main elements in the balance sheet. It is important to specify that there are expenses and revenues which are accrued. But the accruals do not differ from the assets and liabilities to such an extent for them to be designated as elements. *Non-exchange transactions* are very significant in the public sector. But the classification of the accruals of *non-exchange transactions* as individual and separate elements fails to convince. It is important to mention them, without them being designated as elements.

***b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:***

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not ?***
- (ii) Definitions of deferred inflows and deferred outflows ? If not, how would you modify them?***

An answer is not necessary.

## **2.6 Specific Matter of Comment 6**

***a) Do you agree with the terms net assets and net financial position and the definition ? If not, how would you modify the terms and/or definitions ?***

The SRS-CSPCP does not consider *deferred inflows* and *deferred outflows* as independent elements of assets and liabilities. In this sense the expression *net assets* is adequate and the expression *net financial position* is not necessary.

***b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not ?***

The classification of *ownership contributions* and *ownership distributions* as own elements is not convincing, they should be treated as elements of change in equity.

***c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, why not ?***

An answer is not necessary.

***d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?***

Yes.

## **2.7 Specific Matter of Comment 7**

***Do you agree with the discussion of recognition? If not, how would you modify it?***

Yes.

Lausanne, March 7, 2013



Paris, 15<sup>th</sup> April 2013

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**Re: Conceptual Framework Exposure Draft 2**

Dear Ms Fox,

Please find enclosed the response of the Public Sector Accounting Standards Council (CNOCP) to the above-mentioned Exposure Draft.

As a preliminary comment, the Council notes that the status of the Conceptual Framework is unclear. Therefore it suggests to specify in the introduction that the Conceptual Framework doesn't have authority over the Standards.

The Council is satisfied that the Exposure Draft takes into account some of the comments made in its 9 June 2011 response to the Consultation Paper. It particularly welcomes that the non-commercial nature of the public sector service is clearly identified, and is introduced within the elements of the definition of service potential. It also notes that deferred inflows and deferred outflows are defined as separate elements.

However, it considers that the IPSAS Board didn't draw all the consequences of the public sector specificities. In that respect, the Council would appreciate promoting an approach based on economic inflows and outflows. The rationale for this approach being that budget surplus/deficit and accounting surplus/deficit must be consistent, based on a linkage between the budget accounting system and the general-purpose accounting system, seeking to create simple relations between these two systems, main resources arise from sovereign revenue and there is no systematic relationship between income and expenditure.



As regards liabilities, the Council believes that obligations that result from legal provisions (*“legal binding obligations”*) should not be placed on the same footing as those that do not (*“non-legal binding obligations”*). Only the former (*“legal binding obligations”*) should give rise to recognition of a liability, because the Central Government or public entity cannot avoid these obligations due to laws or regulations in force.

As regards *“non-legal binding obligations”*, the Council disagrees with the proposed definition, as this notion is not precisely defined. It seems to include potential commitments, the scope of which is insufficiently described. The Council is of the view that the three criteria for recognition should be cumulative, in order to limit the impact of such obligations.

As already pointed out in the comments made to the former consultations, the Council is not in favour of issuing a comprehensive document that would include reporting on the Long-Term Fiscal Sustainability of Public Finances at macro-economic level. The *“non-legal binding obligations”* could usefully fall into the scope of this report, which would provide figures on the sustainability of public programs and public policies. But, as above-mentioned, the Council believes that this information belongs to a separate process outside the area of standard setting accounting.

Finally, the Council notes that the notion of triggering event is insufficiently addressed. However, that notion is of utmost importance in the public sector, given the weight of non exchange transactions, and it enables to distinguish liabilities that should be recognised, from commitments that are disclosed in the Notes. The Council regrets the lack of analysis dedicated to commitments, and would appreciate that the Exposure Draft be completed accordingly.

Yours sincerely

Michel Prada



## ANNEX

### RESPONSES TO THE QUESTIONS IN THE EXPOSURE DRAFT

#### Specific Matter for Comment 1

***Do you agree with the definition of an asset? If not, how would you modify it?***

The Council agrees with the definition of an asset used in the Exposure Draft, and in particular with the concepts of economic benefits and service potential, control of the asset and a past event that are included in this definition.

The Council is satisfied that this definition takes into account the main substance of the comments in its 9 June 2011 response to the Consultation Paper. It particularly notes that the non-commercial character of public sector service is recognised, included in the elements of the definition of service potential.

The Council also approves the elements used to define the concept of control of an asset. The definition is consistent with that used by French Central Government accounting standards. The Council nonetheless believes that in paragraph 2.7 a reference to the entity that bears the risk associated with the asset should be added to the indicators of control. The fact that the public entity bears the risks and costs linked to holding the asset constitutes a presumption that it exercises control. Finally, the fact that control can be exercised without ownership of the asset could be detailed in the standards.

The Exposure Draft specifies that recognition of an asset arises from a past event, and that general rights relative to the Central Government's or the public entity's sovereign power are not in themselves assets. The Council is taking the same approach with regard to the power to levy taxes, finding that there must be an event such as a parliamentary vote (in France, the vote on the budget act) that transforms a general right into an asset in order for it to be recognised as such. It also suggests that for clarity, in paragraph 2.8 the term "*when the power is exercised*" be replaced by "*when the power is enforced*".

#### Specific Matter for Comment 2

***(a) Do you agree with the definition of a liability? If not, how would you modify it?***

Subject to the comments in (b), the Council agrees with the IPSAS Board's proposed definition of a liability: "*A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic*



*benefits from the entity*”, which is directly derived from the generally agreed definition for liabilities. However, the particularities of the public sector should be added.

***(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?***

The Council believes that obligations that result from legal provisions (“*legal binding obligations*”) should not be placed on the same footing as those that do not (“*non-legal binding obligations*”). Only the former (“*legal binding obligations*”) should give rise to recognition of a liability, because the Central Government or public entity cannot avoid these obligations due to laws or regulations in force.

However, it is satisfied with the analytical effort in the Exposure Draft to define the concept of a “*non-legal binding obligation*” as opposed to “*legal binding obligations*”.

More precisely, as above-mentioned, the Council agrees with the definition for “*legal binding obligations*”. The Council considers that only these obligations comply with the definition of a liability, as they rely on legal or contractual schemes, and are recognised as such.

As regards “*non-legal binding obligations*”, the Council disagrees with the proposed definition, as this notion is not precisely defined. It seems to include potential commitments, the scope of which is insufficiently described. This dissenting view is based on the fact that the concept of a “*non-legal binding obligation*” was derived directly from the provisions of IAS 37 section IN3, which applies to companies and concerns constructive obligations, but, as opposed to IAS 37, without restriction. In fact, in IAS 37, the conditions for recognition of implicit obligations are cumulative. The essential point that the three conditions mentioned (3.10 a) b) and c))<sup>1</sup> are also cumulative should be stated in the Conceptual Framework.

The Council also points out that implementing these conditions is more complex in public entities than in private companies. In this respect, the Council regrets that the Conceptual Framework does not deal with Central Governments’ special powers to limit some of their obligations by changing the law.

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<sup>1</sup> ... a non legal binding obligation that gives rise to a liability has the following attributes:

- a) The company has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- b) As a result of such indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.



Given the difficulties related to the definition of “*non-legal binding obligations*”, the Council is of the view that, despite the interest of the distinction between “*legal*” and “*non-legal*”, it doesn’t permit to easily identify the recognition criteria for liabilities.

Eventually, with respect to accounting information, a clear distinction has to be made, between “*legal binding obligations*” and “*non-legal binding obligations*”. The former, as liabilities, have to be recognised, and may also trigger disclosures in the Notes.

The latter, which comply with a more restrictive definition – the three criteria being cumulative - may also be disclosed in the Notes, provided that a contingent commitment of the Central Government or of the public entity exists. The Council is of the view that the other “*non-legal binding obligations*”, in line with the definition of the Exposure Draft, have the nature of general duties rather than commitments. They shouldn’t be disclosed in the Notes.

Nonetheless, as already pointed out in the comments made to the former consultations, the Council is not in favour of issuing a comprehensive document that would include reporting on the Long-Term Fiscal Sustainability of Public Finances at macro-economic level. The “*non-legal binding obligations*” could usefully fall into the scope of this report, which would provide figures on the sustainability of public programs and public policies. But, as above-mentioned, the Council believes that this information belongs to a separate process outside the area of standard setting accounting.

### **Specific Matter for Comment 3**

#### ***Do you agree with the definition of revenue? If not, how would you modify it?***

The Council is pleased to see the changes in this definition compared with the prior Consultation Paper, but still finds that it falls short. The Council would like to see the concept of economic flows given greater prominence, to make it clear that revenue not only stem from balance sheet variations.

The Council notes that as regards revenue, certain major characteristics of the public sector must be considered, particularly the existence of sovereign revenue. This type of revenue is specific to public entities and is their main resource. It differs from other types of revenue because in theory there are no direct costs associated with it.

Concerning the concept of ownership contributions as applied in the definition of revenue, the Council wishes to point out that in the public sector, this concept is far less frequently encountered than in the private sector and requires explanation. In general, the Council questions whether, in the Exposure Draft, the revenue recognised as ownership contributions



corresponds to capital contributions or to the revenue resulting from capital contributions, i.e. for example dividends.

The Council also recommends specifying the triggering event for revenue. With this in mind, it advocates indicating that revenue is recognised as soon as the conditions for exercising the beneficiary's entitlement have been fully met.

#### **Specific Matter for Comment 4**

##### ***Do you agree with the definition of expenses? If not, how would you modify it?***

The Council is also pleased to see the changes in this definition compared with the prior Consultation Paper. However, as in the case of revenue, the definition should assign greater prominence to the concept of economic flows.

The triggering event for expenses should be specified, as it should be for revenue. The Council would like to point out that the triggering event for recognition of expenses is the "service rendered"<sup>2</sup>. Concerning intervention expenditure<sup>3</sup>, the existence of the "service rendered" presumes that all necessary conditions for establishing the beneficiary's entitlement have been met. For multi-year schemes with conditions attached often found in the public sector, expense recognition is subject to annual compliance with the conditions. If all the necessary conditions for establishing the beneficiary's entitlement have not been met at the closing date, or if the conditions must be maintained during periods following the end of the financial year, the corresponding commitments are disclosed in the Notes.

For example, for multi-year payment schemes subject to specific resource conditions, compliance with the stated resource conditions must be confirmed annually. Amounts still to be paid in respect of future years constitute Central Government or public entities commitments, not liabilities.

In this respect, the Council notes that commitments are not mentioned in the Conceptual Framework, whereas they are in reality very significant, particularly in the public sector. The Exposure Draft needs to include this point.

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<sup>2</sup> For goods, the service rendered corresponds to the delivery of goods; for services, the completion of the services; and for compensation of personnel, the service provided by the agent.

<sup>3</sup> Intervention expenditure is incurred as a result of the Central Government's mandate as an economic and social regulator.





## **Specific Matter for Comment 5**

***(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?***

The Council agrees with the principle of defining deferred elements as separate elements from assets and liabilities, as they are by their very nature annual adjustments.

The Council wishes to mention that accruals and deferrals do not correspond to the definition of assets or liabilities; accordingly, they should be distinguished from them.

The Council believes that the distinction between accruals and deferrals and deferred revenue/prepayments is not clear enough in part 5. This could create a risk of confusion between the concepts.

***(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:***

***(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?***

The Council does not agree to restrict those definitions to non-exchange transactions until clarifications be provided, especially regarding operations presented in § 5.3 and § 5.4

***(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?***

The Council agrees with the proposed definitions of deferred inflows and deferred outflows, which are used to distribute expenses and revenue over time so as to attach to each financial year the expenses and revenue that pertain to it, and only those. They are neither assets nor liabilities. In this regard, the term “*increases net assets*” in the definition is ambiguous and should be changed to “*are added to net assets to constitute the net financial position*”.

As noted above in (a), the elements of the definition of deferred revenue and prepayments should be expanded upon in the Exposure Draft. It must be kept in mind that deferred revenue is a category of non-financial debt that is recognised when the Central Government has received or recognised revenue at the reporting date, that relate to services to be performed or goods to be delivered after the reporting date. Concerning prepayments, they correspond to goods or services already paid for at the closing date, but to be delivered or rendered only at a later date.



## Specific Matter for Comment 6

***(a) Do you agree with the terms “net assets” and “net financial position” and the definitions? If not, how would you modify the terms and/or definitions?***

As opposed to the approach of listing each of the items that together make up these categories, the Council approves of the approach of subtracting to determine net assets and the net financial position. This approach is the most appropriate for public entities, which do not have shareholders or capital. However, the Council notes that the use of these two types of balances (net assets / net financial position) is out of the ordinary. As a result, the components of the net financial position should be clarified. Nonetheless, consistent with the Council's agreement on recognition of deferred elements, it is in favour of using these two balances.

The Council notes that the subtraction approach to defining the net financial position appears inconsistent with IPSAS 1 (paragraph 95), which lists the items that make up the net financial position. This standard should change to conform to the approach favoured under this Conceptual Framework.

***(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?***

The Council notes that these concepts represent transposition into the public sector, where they are of minor significance, of fundamental private-sector concepts. It is not opposed to identification of contributions from and distributions to owners, although it finds that these situations occur infrequently and essentially involve government business enterprises (out of the scope of the framework). However, the Council believes that the accounting treatment of capital contributions by the Central Government or other public entities should be specified.

The Council also notes that pursuant to the Central Government producing consolidated financial statements, these concepts should be explored in greater detail.

***(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?***

The Council believes that the definition of these concepts should be expanded upon with regard to the comments on question (a) above.



***(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?***

The Council believes that ownership interests must be defined, along with ownership contributions.

**Specific Matter for Comment 7**

***Do you agree with the discussion on recognition? If not, how would you modify it?***

The Council finds that the part concerning recognition is not adequately developed, and the definition and identification of the “triggering event” should be an essential point in the document, which at this stage does not mention it.

The Council believes that the Exposure Draft should define the “triggering event” for the recognition of each item discussed in the Conceptual Framework (assets, liabilities, expenses and revenue) and identify criteria for recognition of each one.

The Council accordingly recommends adding the following points to the Exposure Draft.

An asset is recognized when it is controlled by the entity and its cost or its value can be measured with sufficient reliability.

Intervention liabilities, which result from the Central Government’s mandate as an economic and social regulator, are recognised when all necessary conditions for establishing the beneficiary’s entitlement have been met at the closing date and these conditions need not be maintained during subsequent periods. If this is not the case, these obligations correspond to the concept of commitments and are shown in the Notes to the financial statements.

Concerning expenses, the triggering event is the “service rendered”. For goods, the service rendered corresponds to the delivery of goods; for services, the completion of the service provided; and for compensation of personnel, the service provided by the agent.

In the specific case of intervention expenditure, the service rendered corresponds to the fulfilment or maintenance, during the period relating to the closed-out financial year, of all conditions necessary to establish the beneficiary’s entitlement.

For revenue, the Council recommends using the general principle that revenue is recognised when it is received.

Eventually, the council would like the framework to deal with the question of the contingent liabilities, indicating that those commitments should take place in the Notes.



## FRENCH VERSION

Ce document constitue la réponse du Conseil de normalisation des comptes publics (CNOCP) à la consultation de l'IPSAS Board sur la phase 2 du cadre conceptuel des entités publiques.

En préambule, le Conseil souhaiterait que l'introduction du cadre conceptuel précise que le cadre conceptuel n'a pas autorité sur les normes.

Le Conseil remarque avec satisfaction que l'exposé-sondage soumis à consultation a pris en considération certaines des remarques formulées dans sa réponse du 9 juin 2011 au « *Consultation Paper* ». Il est en particulier sensible à la reconnaissance du service non marchand dans le secteur public qui a été introduite dans les éléments de définition du potentiel de service, et à l'identification des comptes de régularisation en tant qu'éléments séparés.

Le Conseil regrette toutefois que l'IPSAS Board n'ait pas tiré toutes les conséquences des spécificités du secteur public. En effet, il considère que la nécessaire cohérence entre le résultat budgétaire et le résultat comptable, qui repose sur une articulation entre la comptabilité budgétaire et la comptabilité générale cherchant à créer des relations simples entre ces deux comptabilités, l'existence des produits régaliens qui constituent l'essentiel des ressources publiques, et l'absence de rattachement direct des produits aux charges dans le secteur public auraient dû conduire l'IPSAS Board à clairement privilégier une approche par les flux économiques.

En matière de passifs, le Conseil considère que les obligations qui découlent de dispositifs légaux (« *legal binding obligations* ») et celles qui n'en découlent pas (« *non-legal binding obligations* ») ne doivent pas être mises sur le même plan. Seules les premières (« *legal binding obligations* ») doivent donner lieu à la comptabilisation d'un passif, puisque l'Etat ou l'entité publique ne peut se soustraire à ces obligations du fait de dispositifs législatifs ou contractuels.

Concernant les « *non-legal binding obligations* », le Conseil est en désaccord avec la définition proposée qui ne permet pas de cerner précisément cette notion et qui semble inclure des engagements potentiels au périmètre insuffisamment défini. Le Conseil considère que les



trois critères les caractérisant doivent être cumulatifs, afin de restreindre la portée de telles obligations.

Comme mentionné dans les réponses aux précédentes consultations de l'IPSAS Board, le Conseil n'est pas opposé à la publication d'un document global qui comporterait des informations de soutenabilité budgétaire à long terme des finances publiques revêtant un caractère macro-économique. Les « *non-legal binding obligations* » pourraient utilement être incluses dans le périmètre de ce document qui présenterait des informations chiffrées de soutenabilité sur certaines actions et politiques publiques. Mais, comme déjà rappelé, le Conseil considère que ce type d'information se place dans le cadre d'un exercice différent de celui de la normalisation comptable.

Enfin, le Conseil relève que la notion de fait générateur n'est pas traitée dans l'exposé-sondage de manière suffisante. Elle est pourtant essentielle dans la sphère publique en raison notamment du volume des transactions sans contrepartie, et doit permettre d'effectuer la distinction entre ce qui relève du passif et ce qui constitue un engagement hors bilan à mentionner en annexe. Le Conseil note à cet égard l'absence d'analyse dédiée aux engagements et considère que l'exposé-sondage nécessite d'être complété sur ce point.



## ANNEXE

### REPONSES AUX QUESTIONS POSEES DANS L'EXPOSE-SONDAGE

***1. Etes-vous d'accord avec la définition d'un actif ? Dans la négative, comment la modifieriez-vous ?***

Le Conseil est d'accord avec la définition d'un actif figurant dans l'exposé-sondage, et notamment avec les notions d'avantages économiques et potentiel de service, de contrôle de l'actif et de fait générateur figurant dans cette définition.

Le Conseil remarque avec satisfaction que cette définition prend en compte l'essentiel des remarques formulées dans sa réponse du 9 juin 2011 au « *Consultation Paper* ». Il est en particulier sensible à la reconnaissance du service non marchand dans le secteur public qui a été introduite dans les éléments de définition du potentiel de service.

Le Conseil approuve également les éléments mis en avant pour définir la notion de contrôle d'un actif, dont la définition est cohérente avec celle retenue dans les normes comptables de l'Etat français. Néanmoins, le Conseil considère que dans le paragraphe 2.7 une référence à l'entité qui supporte le risque associé à l'actif mériterait d'être ajoutée aux indicateurs de contrôle. Le fait que l'entité publique supporte les risques et charges afférentes à la détention du bien constitue une présomption de l'existence du contrôle. Enfin, le fait que le contrôle puisse être exercé sans détenir la propriété de l'actif pourrait être souligné dans les dispositions normatives.

L'exposé-sondage précise que la comptabilisation d'un actif résulte d'un événement passé, et que les droits généraux relatifs au pouvoir souverain de l'Etat ou de l'entité publique ne sont pas en eux-mêmes des actifs. Le Conseil adhère à cette approche. Aussi, pour ce qui concerne le droit de lever l'impôt, il estime qu'il doit exister un événement comme un vote du parlement (en France, le vote de la loi de finances), qui transforme un droit général en actif pouvant être comptabilisé. Pour plus de clarté, il suggère, dans le paragraphe 2.8, de remplacer les termes « *when the power is exercised* » par « *when the power is enforced* ».

***2(a). Etes-vous d'accord avec la définition d'un passif ? Dans la négative, comment la modifieriez-vous ?***

Sous réserve des remarques figurant au paragraphe (b), le Conseil est d'accord avec cette proposition « *A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity* », qui reprend la définition communément admise pour les passifs. Cette définition devrait néanmoins être complétée des spécificités du secteur public.



**2(b). Etes-vous d'accord avec la description des obligations contraignantes qui ne découlent pas d'un dispositif légal ? Dans la négative, comment la modifieriez-vous ?**

De façon générale, le Conseil considère que les obligations qui découlent de dispositifs légaux (« *legal binding obligations* ») et celles qui n'en découlent pas (« *non-legal binding obligations* ») ne doivent pas être mises sur le même plan. Seules les premières (« *legal binding obligations* ») doivent donner lieu à la comptabilisation d'un passif, puisque l'Etat ou l'entité publique ne peut se soustraire à ces obligations du fait de dispositifs législatifs ou contractuels.

Il note cependant avec satisfaction l'effort d'analyse effectué dans l'exposé-sondage pour définir la notion d'obligation contraignante, en distinguant les obligations qui découlent d'un dispositif légal des autres.

Plus précisément et comme rappelé *supra*, le Conseil est d'accord avec la définition donnée des obligations qui découlent de dispositifs légaux (« *legal binding obligations* »). Le Conseil considère que seules ces obligations répondent à la définition d'un passif, du fait de dispositifs législatifs ou contractuels, et sont inscrites au passif du bilan des entités publiques.

Concernant les « *non-legal binding obligations* », le Conseil est en désaccord avec la définition proposée qui ne permet pas de cerner précisément cette notion et qui semble inclure des engagements potentiels au périmètre insuffisamment défini. Ce désaccord est d'autant plus profond que la définition proposée, issue du référentiel IFRS, s'inspire des dispositions de la norme IAS 37 § IN3 relatives aux obligations implicites, sans toutefois en retenir le caractère restrictif. En effet, dans IAS 37, les conditions de reconnaissance des obligations implicites sont cumulatives. La précision, essentielle, que les trois conditions mentionnées aux paragraphes 3.10(a), (b) et (c)<sup>4</sup> le sont également doit être introduite dans le cadre conceptuel.

Par ailleurs, le Conseil tient à souligner que la mise en œuvre de ces conditions est plus complexe dans les entités publiques que dans les entreprises. A cet égard, le Conseil regrette que le cadre conceptuel ne traite pas de la capacité spécifique des Etats à limiter certaines de leurs obligations en faisant évoluer le cadre législatif.

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<sup>4</sup> ... a non legal binding obligation that give rise to a liability has the following attributes :

- d) The company has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- e) As a result of such indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- f) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.



Compte tenu des difficultés identifiées sur la définition des « *non-legal binding obligations* », le Conseil considère que, malgré l'intérêt de cette distinction entre « *legal* » et « *non-legal* », celle-ci ne permet pas de conclure clairement sur les critères de comptabilisation d'un passif.

Enfin, en termes d'information comptable, il convient là aussi d'établir une distinction claire entre les « *legal binding obligations* » et les « *non-legal binding obligations* ».

Les premières, qui sont des passifs, font l'objet, outre leur inscription en comptabilité, d'une information explicative dans les notes annexes.

Les secondes, qui doivent donc répondre à une définition plus restrictive, - les trois critères les caractérisant devant être cumulatifs -, peuvent faire également l'objet d'une information en annexe, dès lors qu'il existe un engagement potentiel de l'Etat ou de l'entité publique. Le Conseil estime que les autres « *non-legal binding obligations* » telles que résultant de la définition proposée dans l'exposé-sondage et qui relèvent donc plus de l'obligation à caractère général que de l'engagement potentiel, ne doivent pas faire l'objet d'une information comptable relevant de l'annexe des comptes.

En revanche, comme mentionné dans les réponses aux précédentes consultations de l'IPSAS Board, le Conseil n'est pas opposé à la publication d'un document global qui comporterait des informations de soutenabilité budgétaire à long terme des finances publiques revêtant un caractère macro-économique. Les « *non-legal binding obligations* » pourraient utilement être incluses dans le périmètre de ce document qui présenterait des informations chiffrées de soutenabilité sur certaines actions et politiques publiques. Mais, comme déjà rappelé, le Conseil considère que ce type d'information se place dans le cadre d'un exercice différent de celui de la normalisation comptable.

### **3. *Etes-vous d'accord avec la définition des produits ? Dans la négative, comment la modifieriez-vous ?***

Le Conseil note avec satisfaction l'évolution de la définition par rapport au précédent document de consultation, qui lui semble néanmoins insuffisante. Le Conseil souhaiterait que la notion de flux économiques soit davantage mise en avant pour bien faire apparaître qu'un produit n'est pas la simple variation d'un poste de bilan.

Le Conseil note qu'en matière de produits, certaines spécificités majeures du secteur public doivent être rappelées, notamment l'existence des produits régaliens. Ces produits sont spécifiques aux entités publiques dont ils constituent la principale ressource, et ont la particularité de ne pas être, en principe, directement rattachés à des charges.





S'agissant de l'utilisation de la notion d'apports d'actionnaires (« *ownership contributions* ») dans la définition des produits, le Conseil fait remarquer que dans le secteur public, cette notion est beaucoup moins courante que dans le secteur privé et devrait faire l'objet d'explications. De manière générale, le Conseil se demande si, dans l'exposé-sondage, le produit comptabilisé au titre de l'apport d'actionnaires correspond à l'apport en capital lui-même ou bien au produit rémunérant cet apport en capital, c'est-à-dire, par exemple, le dividende.

Par ailleurs, le Conseil propose que le fait générateur des produits soit précisé. Dans cette perspective, il préconise d'indiquer qu'un produit est comptabilisé dès lors que les conditions de réalisation du droit du bénéficiaire sont intégralement satisfaites.

#### ***4. Etes-vous d'accord avec la définition des charges ? Dans la négative, comment la modifieriez-vous ?***

Le Conseil note également avec satisfaction l'évolution de la définition par rapport au précédent document de consultation. Néanmoins, comme pour les produits, la définition devrait davantage mettre en avant la notion de flux économiques.

A l'instar des produits, le fait générateur des charges devrait également être précisé. Le Conseil propose de rappeler que le fait générateur de la comptabilisation des charges est le « service fait<sup>5</sup> ». En matière de charges d'intervention<sup>6</sup>, le « service fait » suppose la réalisation de l'ensemble des conditions nécessaires à la constitution du droit du bénéficiaire. Dans le cadre des dispositifs pluriannuels assortis de conditions, fréquents dans le secteur public, la comptabilisation des charges est subordonnée au respect annuel des conditions. Si l'ensemble des conditions nécessaires à la constitution du droit du bénéficiaire n'est pas réalisé à la date de clôture ou nécessite d'être maintenu sur des périodes postérieures à l'exercice clos, les engagements potentiels sont mentionnés dans l'annexe.

C'est le cas par exemple des dispositifs pluriannuels versés sous conditions de ressources, le respect de cette condition de ressources devant être confirmée annuellement. Les montants restant à verser au titre des exercices futurs constituent des engagements de l'Etat ou de l'entité publique et non des passifs.

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<sup>5</sup> Pour les biens, le service fait correspond à la livraison des fournitures, pour les prestations de service, à la réalisation de la prestation et pour les rémunérations du personnel, au service fourni par l'agent.

<sup>6</sup> Les charges d'intervention sont des versements motivés par la mission de régulateur économique et social de l'Etat.



A cet égard, le Conseil note l'absence des engagements dans le cadre conceptuel alors qu'ils sont d'une grande importance, particulièrement dans le secteur public. L'exposé-sondage nécessite d'être complété sur ce point.

***5(a). Etes-vous d'accord avec la décision d'identifier les éléments différés dans des postes séparés? Dans la négative, en expliquer les raisons.***

Le Conseil est d'accord avec le fait de définir les éléments différés comme des éléments séparés des actifs et des passifs qui sont par nature des régularisations annuelles.

Le Conseil rappelle que les comptes de régularisation ne répondent pas à la définition d'un actif ou d'un passif ; ils doivent en conséquence être distingués de ces derniers.

Le Conseil considère que la distinction entre les comptes de régularisation et les produits constatés d'avance / charges constatées d'avance n'est pas suffisamment claire dans le paragraphe 5 consacré aux éléments différés, ce qui pourrait engendrer un risque de confusion entre ces différentes notions.

***5(b). Si vous êtes d'accord avec la décision d'identifier les éléments différés dans des postes séparés,***

***(i) validez-vous la proposition: de restreindre les éléments différés aux transactions sans contrepartie ? Dans la négative, en expliquer les raisons.***

Le Conseil n'approuve pas cette restriction, car des clarifications doivent être apportées, notamment sur les dispositifs visés par les paragraphes 5.3 et 5.4.

***(ii) Etes-vous d'accord avec la définition des éléments différés ? Dans la négative, comment souhaiteriez-vous la modifier ?***

Le Conseil est d'accord avec la définition proposée pour les comptes de régularisation qui sont utilisés pour répartir les charges et les produits dans le temps, de manière à rattacher à chaque exercice les charges et les produits qui le concernent effectivement, et ceux-là seulement. Ils ne constituent ni des actifs, ni des passifs. A cet égard les termes « augmentent l'actif net » (« *increases net assets* ») dans la définition sont ambigus et devraient être modifiés par « viennent s'ajouter à l'actif net pour constituer la position financière nette ».

Comme indiqué *supra* (a), les éléments de définition des produits constatés d'avance et des charges constatées d'avance devraient être développés dans l'exposé-sondage, en rappelant que les produits constatés d'avance sont une catégorie des dettes non financières comptabilisés lorsque des revenus ont été perçus ou comptabilisés en produits à la date de clôture au titre de



prestations restant à réaliser ou de marchandises restant à livrer après la date de clôture. S'agissant des charges constatées d'avance, elles correspondent à des biens ou des services déjà payés à la date de clôture, mais dont la fourniture ou la prestation n'interviendra qu'ultérieurement.

***6(a). Etes-vous d'accord avec les termes d'actifs net et de position financière nette et leur définition ? Dans la négative, comment souhaiteriez-vous modifier les termes et/ou leur définition ?***

Par opposition à l'approche énumérative, détaillant chacun des postes constitutifs de ces rubriques, le Conseil valide l'approche soustractive pour déterminer l'actif net et la situation nette. Cette approche est la plus appropriée aux entités publiques qui ne disposent ni d'actionnaires, ni de capital. Il fait toutefois remarquer que l'utilisation de deux types de soldes (« *net asset / net financial position* ») n'est pas usuelle. Par conséquent, les composantes de la position financière nette devraient être clarifiées. Néanmoins, en cohérence avec l'accord du Conseil sur la reconnaissance d'éléments différés, le Conseil est favorable à l'utilisation de ces deux soldes.

Le Conseil fait remarquer que l'approche soustractive de la définition de la situation nette paraît incohérente avec la norme IPSAS 1 (paragraphe 95) qui liste les postes composant la situation nette. Cette norme devra évoluer dans le sens de l'approche retenue dans le cadre conceptuel.

***6(b). Etes-vous d'accord avec la décision d'identifier les apports d'actionnaires et les dividendes dans des postes séparés ? Dans la négative, expliquer pourquoi.***

Le Conseil note que ces notions correspondent à la transposition dans la sphère publique, où elles s'avèrent marginales, de notions fondamentales dans le secteur privé. Il ne s'oppose pas à l'identification des apports d'actionnaires et des distributions, bien que ces situations lui semblent rares et concernent essentiellement les entreprises publiques (hors champ du cadre conceptuel IPSAS). Le Conseil souhaiterait cependant que le traitement comptable des dotations en capital de l'Etat ou d'autres entités publiques soit précisé.

Le Conseil fait enfin remarquer que dans le contexte d'une consolidation des comptes de l'Etat, ces concepts devront être approfondis.



**6(c). Si vous êtes-vous d'accord avec la décision d'identifier les apports d'actionnaires et les dividendes dans des postes séparés, êtes-vous satisfaits de la définition qui en est faite ? Dans la négative, comment souhaiteriez-vous la modifier ?**

Le Conseil estime que la définition de ces notions doivent être développées, au regard des commentaires apportés à la question (a) ci-dessus.

**6(d). La notion de « part d'intérêts » n'a pas été définie dans ce cadre conceptuel. Pensez-vous que cela devrait l'être ?**

Le Conseil considère que ces éléments doivent être définis, au même titre que les apports d'actionnaires.

**7. Etes-vous d'accord avec le développement relatif aux modalités de comptabilisation ? Dans la négative, comment souhaiteriez-vous la modifier ?**

Le Conseil considère que la partie relative à la comptabilisation n'est pas suffisamment développée, alors que la définition et l'identification du « fait générateur », devrait constituer un point essentiel du document, qui, à ce stade, ne le prévoit pas.

Le Conseil considère que l'exposé-sondage devrait définir le « fait générateur » de la comptabilisation de chacun des éléments abordés dans le cadre conceptuel (actifs, passifs, charges et produits) et développer leurs critères de comptabilisation.

Le Conseil propose en conséquence de compléter l'exposé-sondage des points décrits ci-après.

Un actif est comptabilisé dès lors lorsqu'il est contrôlé par l'entité et que son coût ou sa valeur peut-être évalué avec une fiabilité suffisante.

Les passifs d'intervention, découlant d'une mission de régulateur économique et social, sont constatés lorsque l'ensemble des conditions nécessaires à la constitution du droit du bénéficiaire sont réalisées à la date de clôture ou que ces conditions ne nécessitent pas d'être maintenues sur des périodes postérieures. Dans le cas contraire, ces obligations répondent à la notion d'engagements et sont présentées dans l'annexe.

S'agissant des charges, le fait générateur est « le service fait ». Pour les biens, le service fait correspond à la livraison des fournitures ; pour les prestations de service, à la réalisation de la prestation et pour les rémunérations du personnel, au service fourni par l'agent.



Dans le cas particulier des charges d'intervention, le service fait correspond à la réalisation ou au maintien, sur la période se rattachant à l'exercice clos, de l'ensemble des conditions nécessaires à la constitution du droit du bénéficiaire.

Pour les produits, le Conseil propose de retenir le principe général selon lequel un produit est comptabilisé lorsqu'il est acquis.

Le Conseil souhaiterait enfin que le cadre conceptuel traite le sujet des passifs éventuels en indiquant que ces engagements doivent faire l'objet d'une inscription en annexe.



Mr. Andreas Bergmann  
Chairman  
International Public Sector Accounting  
Standards Board

E-mail: [stepheniefox@ipsasb.org](mailto:stepheniefox@ipsasb.org)

16 April 2013

Ref.: PSC/AKI/TSI/SRO

Dear Mr. Bergmann and Ms. Fox,

**Re: FEE Comments on the IPSASB Exposure Draft on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements**

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the IPSASB's ("Board") Exposure Draft on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (the "ED").
- (2) As highlighted in previous comments, FEE strongly supports the Board's intention to finalise the Conceptual Framework with a high priority, as the development of the existing standards and many proposals for future standards depend on its finalisation. This would also help the Board to streamline its standard setting activity in the future, whether setting new standards on public sector specific issues or updating IFRS converged standards.
- (3) We also support the Board's intention to maintain the alignment of IPSASs with IFRSs on matters which are common to both to private and public sectors. However, as rightly pointed out in the Consultation, the development of the *Conceptual Framework* should not be an IFRS convergence project and therefore not an interpretation of the application of the IASB Conceptual Framework to the public sector. Nevertheless, it is not desirable for there to be conceptual differences unless driven by specifics of the public sector.
- (4) We agree with most of the elements proposed by the ED, however, we do not support the proposal to indentify and recognise deferred inflows and outflows as separate elements at the conceptual framework level. Instead, we believe that any appropriate deferral of revenue recognition and expenses recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.



Further FEE responses to the detailed questions of the ED are included in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, project manager, at the FEE Secretariat on +32 2 285 40 74 or via e-mail at [tibor.siska@fee.be](mailto:tibor.siska@fee.be).

Yours sincerely,

A blue ink signature of André Killesse, consisting of several loops and a long horizontal stroke at the bottom.

André Killesse  
President

A blue ink signature of Olivier Boutellis-Taft, featuring a large, stylized 'B' and a long horizontal stroke extending to the right.

Olivier Boutellis-Taft  
Chief Executive



## Appendix - Responses to Specific Matters for Comment in the Consultation

### Question 1

**Do you agree with the definition of an asset? If not, how would you modify it?**

- (5) We agree with the proposed definition and the attributes of what constitutes an asset.
- (6) As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.
- (7) Furthermore, we would like to draw the Board's attention to the duplication that currently exists between the definition of an asset in paragraph 2.1 and the definition of "a resource" in paragraph 2.2. To address this issue, FEE recommends the removal of the first sentence of paragraph 2.2.

### Question 2

**(a) Do you agree with the definition of a liability? If not, how would you modify it?**

**(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

- (8) We agree with the proposed definition and the attributes of what constitutes a liability.
- (9) As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.
- (10) The ED notes that some liabilities can be measured only by using a substantial degree of estimation and they are regarded as provisions. In some countries, such provisions are not considered to be liabilities due to the concept of a liability only allowing the inclusion of amounts that can be established without the need to make estimates. We support the Board proposal on a broader definition of a liability which would include provisions (for instance provisions to cover pension obligations or warranties).

### Question 3

**Do you agree with the definition of revenue? If not, how would you modify it?**

- (11) As it will be seen from our response to question 5, we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.
- (12) Therefore a possible definition of revenue, retaining the existing wording but removing the references to deferred inflows and outflows, would be "Inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions".





## Appendix - Responses to Specific Matters for Comment in the Consultation

- (13) As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.

### Question 4

#### **Do you agree with the definition of expenses? If not, how would you modify it?**

- (14) Similar to the definition of revenue, we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.
- (15) Therefore a possible definition of expense, retaining the existing wording but removing the references to deferred inflows and outflows, would be "Outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions".
- (16) As discussed later, we believe that any appropriate deferral of expenses recognition can be achieved using the definitions of assets, liabilities, and expenses alone, by further consideration of the control criteria for these transactions.

### Question 5

#### **(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?**

#### **(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:**

- (i) **Decision to restrict those definitions to non-exchange transactions? If not, why not?**
- (ii) **Definitions of deferred inflows and deferred outflows? If not, how would you modify them?**

- (17) The proposed Conceptual Framework includes deferred inflows and outflows as separate elements of the financial statements, arising as a result of non-exchange transactions where the inflows and outflows relate to a specified future reporting period. Due to the unique nature of the non-exchange transactions, we agree with the Board that they should receive specific consideration while developing the Conceptual Framework.
- (18) However, we believe that the proposal significantly modifies what generally is understood under the concept of revenue and expense, and this may have a negative impact on the users' understanding of the financial performance of the reporting entity.
- (19) More importantly, we strongly believe that the Conceptual Framework should only include concepts that are based on principles which are generally applicable to all transactions. Consequently, the intent to provide specific guidance for a specific group of transactions (e.g. non exchange transactions) at Conceptual Framework level would not support a principle-based approach. This may unhelpfully be seen by many as decreasing the transaction neutrality of the Framework.
- (20) Therefore, we do not support the proposal to identify and recognise deferred inflows and outflows as separate elements at the conceptual framework level as proposed by the Board.



## Appendix - Responses to Specific Matters for Comment in the Consultation

- (21) Due to the specific importance to public sector entities, we believe that there is a strong need to provide guidance as to when the deferred recognition of revenue and expenses would be appropriate, by further considering the control criteria in these cases; but that this guidance would be better addressed on a case by case basis at standard level.

### Considerations to be taken into account at standard level

- (22) Currently under IPSAS 23, when an entity receives a grant, over which it demonstrate control and with a condition that it can spend the grant on a particular purpose in future periods or else repay the grant, this would clearly give rise to a liability. Conversely, if the grant had no stipulations about its use (i.e. no related obligation), under the current IPSAS 23 it would be immediately recognised as revenue, regardless of the period in which it will be spent (current or future reporting periods). Obviously, the repayment scenario (spending in future periods, but obligation to repay if not spent appropriately) and a scenario without repayment obligation in which the grant is spent in the current reporting period are unproblematic.
- (23) However, if the transaction reflects a combination of the two scenarios (spending in future periods, but no repayment obligation) the question for appropriate revenue recognition arises. The proposals for deferred inflows were intended to fill exactly this middle ground – where there is a stipulation that the grant be used over particular (also future) periods but without a requirement to repay the grant if this is not done. Similarly, deferred outflows would fill the middle ground between expenses and assets.
- (24) Whilst we do not support the inclusion of deferred inflows and outflows as separate elements of the conceptual framework, we believe that there may be circumstances in which deferring the recognition of revenue or expenses best reflects the economic substance of a transaction.
- (25) We would therefore recommend the Board provide further guidance on the types of transactions which could result in appropriate deferred recognition, and establish clear criteria, at standards level, as to when deferrals would be permitted or required. In particular, it would be worthwhile for the Board to give further consideration as to when control is transferred and the circumstances in which criteria such as the passage of time might result in a donor retaining control over a donation because the substance of the transaction is such that the recipient has no reasonable alternative than to comply with the wishes of the donor.

#### **Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?**
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?**
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?**



## Appendix - Responses to Specific Matters for Comment in the Consultation

- (26) We agree with the proposal that net assets are the difference between assets and liabilities. However, we believe as explained above that deferred inflows and outflows should not be separate elements. Should the Board accept this view, the definition of net financial position would no longer be required.
- (27) We agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions. We do not consider it necessary to define ownership interests in the conceptual framework.

### **Specific Matter for Comment 7**

**Do you agree with the discussion on recognition? If not, how would you modify it?**

- (28) We agree with the proposed recognition criteria and their relationship to disclosures.



NZ ACCOUNTING  
STANDARDS  
BOARD

19 April 2013

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

Submitted to: [www.ifac.org](http://www.ifac.org)

Dear Stephenie

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

**Introduction**

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the Conceptual Framework Exposure Draft 2, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (ED). The ED has been issued for comment in New Zealand and as a result you may also have received comments directly from New Zealand constituents.

**General Comments**

The NZASB compliments the International Public Sector Accounting Standards Board (IPSASB) on its leadership and progress in developing a Conceptual Framework (Framework) for general purpose financial reporting by public sector entities.

The development of this Framework is extremely important to New Zealand given the External Reporting Board's (XRB) decision to base its accounting standards for public benefit entities (which comprise public sector entities and "private" not-for-profit entities) on International Public Sector Accounting Standards (IPSASs). As such, it is critical to us that the Framework that underlies IPSASs is conceptually robust, coherent and appropriate for public sector entities in New Zealand.

We note that the International Accounting Standards Board (IASB) has recently recommenced its work on a conceptual framework for for-profit entities. We encourage the IPSASB and the IASB to work closely together in developing their conceptual frameworks as the two Boards are likely to be considering similar issues. We consider that the development of the conceptual frameworks, particularly in relation to elements and recognition, is too important for the two Boards to be working independently of each other. Ideally, the IPSASB and IASB Frameworks should only contain different concepts that result from sectoral differences.

## Specific Comments

The NZASB's main concern with the ED relates to the proposal to define deferred inflows and deferred outflows as elements and the consequential impact of this proposal on other aspects of the proposed Framework. Our concerns with the proposal to define deferred inflows and deferred outflows as elements are summarised below. We discuss our concerns in greater detail in Specific Matter for Comment 5.

### ***Proposal to define deferred inflows and deferred outflows as elements***

The NZASB appreciates that, in proposing to define deferred inflows and deferred outflows as separate elements, the IPSASB is attempting to solve a common and fundamental problem in the public sector. We acknowledge the IPSASB's attempt to ensure that public sector entity financial statements portray transactions, such as multi-year grants, in a meaningful manner.

However, we strongly disagree with the IPSASB's proposal to define deferred inflows and deferred outflows as elements. In our view, elements in financial statements should represent "real-world" economic phenomena<sup>1</sup>. Deferred inflows and deferred outflows do not represent real-world economic phenomena but are merely accounting constructs. We consider that a Framework should not elevate such accounting constructs to the status of elements.

We consider that general purpose financial reports (GPFs) and financial statements should include both financial and non-financial information to faithfully represent the activities of an entity, that is, the information should inter-relate to "tell the story" of the entity. The proposed approach appears to use non-financial information as the primary determinant of the financial information that is recognised in financial statements. In our view, the proposal creates confusion about the objectives of the Statement of Financial Position and the Statement of Financial Performance and the information they are intended to impart. The proposed concept of "net financial position" is confusing and the intended meaning of financial performance is now unclear.

The IPSASB's rationale, as stated in paragraph BC40, is to show separately flows that relate to specified future reporting periods, rather than including them in the Statement of Financial Performance of the current reporting period. Restricting the deferred flows to non-exchange transactions with one form of time-based restrictions makes the concept underlying deferred flows unclear when assessed against the stated rationale. The completeness and usefulness of such "current period" information is questionable.

We consider that deferred flow information would be better imparted through a presentational approach. That is, user-needs would be better served through presentation of the relevant financial and non-financial information in a separate statement or as a separate section of the primary financial statements detailing such flows. In this regard, we consider the IPSASB has not provided a robust enough reason for dismissing a presentational approach and we support the alternative view of Ms Jeanine Poggiolini as set out in the ED.

If the IPSASB proceeds with the proposal to recognise deferred inflows and deferred outflows as elements, the Basis for Conclusions should contain a clearer discussion of the problem that the proposal is trying to solve, together with a more robust and conceptual basis for why and how, for public sector entities, the proposed approach:

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<sup>1</sup> By "economic phenomena" in this context, we mean events and transactions that relate to the exchange, production, consumption, distribution and/or transfer, of goods, services, resources and/or obligations.

- better meets the objectives of general purpose financial reporting;
- better meets the needs of users; and
- meets the qualitative characteristics of the information that is presented in GPFRs.

The above issues and our other comments are discussed more fully in the Appendix to this letter. If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng ([LayWee.Ng@xrb.govt.nz](mailto:LayWee.Ng@xrb.govt.nz)) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michele Embling', enclosed within a circular flourish.

Michele Embling

**Chairman – New Zealand Accounting Standards Board**

Email: [Michele.Embling@xrb.govt.nz](mailto:Michele.Embling@xrb.govt.nz)



## APPENDIX

### Response to Specific Matters for Comment

#### Specific Matter for Comment 1:

Do you agree with the definition of an asset? If not, how would you modify it?

In general, we support the definition of an asset. However, the IPSASB may wish to consider whether it is necessary to include “past event” in the definition of an asset. In this regard, we recommend that the IPSASB monitors developments on this issue at the IASB with the objective of aligning the definitions of an asset in the IPSASB and IASB Frameworks.

We acknowledge that past events give rise to assets and liabilities and the requirement for a past event may, in certain circumstances, give greater clarity in determining when assets and liabilities exist. However, in our view, the identification of a past event is not always required in order for an asset to exist: whether or not an asset exists could be determined by reference to present circumstances.

We note that paragraph 2.8 of the ED uses “past event” to limit the economic phenomena that could be classified as an asset. As illustrated in paragraph 2.8, it can be difficult to unambiguously identify the past event in the public sector. For example, assets associated with the power to tax could emerge in different forms over time. We acknowledge that a past event may be a useful indicator that an asset exists but we do not consider that it is always an essential pre-requisite for the identification of an asset. The requirement for a past event can also be viewed as a recognition issue and such uncertainty might be better addressed in section 7 as part of “existence uncertainty”.

The discussion of control in paragraph 2.6(b), in our view, is too broad. It focuses on power without linking it back to the notion of the entity deriving benefits from the resource. For example, a government’s legislative or regulatory powers could result in all resources in the government’s jurisdiction being considered to be under the control of the entity if the wording in 2.6(b) is applied. We suggest rewording 2.6 and combining (a) and (b) along the following lines:

*“Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource.”*

Paragraph 2.7 sets out the indicators of control. The indicator “the ability to deny or restrict access to the resource” may inappropriately result in certain assets such as public roads, parks and public walkways being excluded from the definition of assets if it is read too literally. For example, an entity may consider that it does not control a main road because it argues that it cannot, in practice, permanently deny access to that road. It may be necessary for the Framework to include further guidance on this indicator.

#### Specific Matter for Comment 2:

- (a) Do you agree with the definition of a liability? If not, how would you modify it?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

- (a) In general, we support the definition of a liability. However, as with our comment on the definition of an asset, the IPSASB may wish to consider whether it is necessary to include “past event” in the definition of a liability. We recommend that the IPSASB monitors

developments on this issue at the IASB with the objective of aligning the definitions of a liability in the IPSAB and IASB Frameworks.

In our view, it may not be necessary to include a requirement that there have been a past event in the definition of a liability. The point in time when an entity has no realistic alternative to avoid an obligation may not necessarily coincide with or require a “past event”. Further, the inclusion of past event in the definition is inconsistent with the requirement to recognise non-legal binding obligations as liabilities as these may not arise from a readily identifiable past event.

In relation to the definition of a liability in paragraph 3.1, we suggest that the reference to the outflow “of service potential or economic benefits from the entity” be changed to “of resources from the entity”. It is the resources that are transferred, not the service potential of those resources. Transferring of resources will include services.

We consider it might also be useful to clarify that enforceability (in paragraph 3.7) also does not include “political coercion”.

- (b) We agree with the description of non-legal binding obligations, taking into account that the point in time when a non-legal binding obligation becomes a liability may be jurisdiction-specific.

However, if the IPSASB proceeds with the proposal to define deferred inflows and deferred outflows as separate elements, we suggest that the Framework clarifies when an entity should recognise an inflow of funds as a deferred inflow and when an entity should consider the attributes of the non-legal binding obligation in paragraph 3.10 of the ED and recognise a non-legal obligation/liability in respect of that inflow of funds. (Also see our comments under Specific Matter for Comment 5.)

We suggest replacing the word “obligations” in the second sentence of paragraph 3.12 with “expectations by stakeholders”.

**Specific Matter for Comment 3:**

Do you agree with the definition of revenue? If not, how would you modify it?

Consistent with our discussion in the covering letter and in Specific Matter for Comment 5 regarding deferred inflows and deferred outflows, we do not agree with the definition of revenue.

We consider that revenue should be defined as all inflows during the current reporting period, other than ownership contributions, which increase the net assets of an entity.

We consider that the proposed definition of revenue (which excludes increases in deferred inflows and includes inflows during the current reporting period that result from decreases in deferred inflows) will potentially result in revenue being misstated because we do not consider that decreases in deferred inflows are revenues. The proposed adjustments to revenue relate only to a subset of transactions that could be defined as deferred inflows (i.e. those relating to non-exchange transactions associated with specified future periods). We query the usefulness of such a revenue figure as an indicator of the performance of an entity for the period, given that the costs of any related performance for the deferred inflows are not necessarily associated with those periods. (Also see our comments on deferred inflows and deferred outflows under Specific Matter for Comment 5.)

**Specific Matter for Comment 4:**

Do you agree with the definition of expenses? If not, how would you modify it?

Consistent with our discussion in the covering letter and in Specific Matter for Comment 5 regarding deferred inflows and deferred outflows, we do not agree with the definition of expenses.

We consider that expenses should be defined as all outflows during the current reporting period, other than ownership distributions, which decrease the net assets of an entity.

Similar to our comment about the definition of revenue, we consider that the proposed definition of expenses will potentially result in expenses for a particular reporting period being misstated because we do not consider that decreases in deferred outflows are expenses. The proposed adjustments to expenses relate only to a subset of transactions that could be defined as deferred outflows (i.e. those relating to non-exchange transactions associated with specified future periods). We query the usefulness of such an expense figure as an indicator of the performance of an entity for the period given that the benefits to be derived for the deferred outflows are not necessarily associated with those periods.

**Specific Matter for Comment 5:**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
  - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

- (a) We strongly disagree with the IPSASB's proposal to define deferred inflows and deferred outflows as elements.

Elements in financial statements should represent real-world economic phenomena. Elements should be defined in relation to economic resources and economic obligations (assets and liabilities) and changes in those economic resources and economic obligations (revenues and expenses). Elements should not be items that do not represent real-world economic phenomena but are derived only from accounting constructs. We consider that the inclusion of deferred inflows and deferred outflows as elements in financial statements is not representationally faithful.

The proposal to include deferred inflows and deferred outflows creates confusion about the objectives of the Statement of Financial Performance and the Statement of Financial Position and the information that they are intended to impart. It changes the composition of the elements of assets, liabilities, revenue and expense, and hence of ownership interests/equity.

The existing purpose of a Statement of Financial Position is to present information about the resources under the control of the entity, obligations of, and claims against, the entity and ownership interests/equity at a particular point in time. The inclusion of deferred inflows and deferred outflows in the Statement of Financial Position is inconsistent with this generally accepted purpose. Consequently, the Statement of Financial Position would not faithfully represent the resources that an entity controls, the obligations of, or claims against the entity, or the entity's ownership interests/equity. The proposal, in our view,

elevates the recognition and presentation of (partial) flows over the concept of control that traditionally underlies the Statement of Financial Position.

We recommend that, if the proposal proceeds, the Framework clarifies the purpose of the Statement of Financial Performance and Statement of Financial Position. In this regard, we consider the discussion in paragraph 4.7 of the ED (in relation to Financial Performance) to be inadequate. We recommend a fuller discussion of financial performance under this new basis.

We appreciate that IPSASB is responding to a perceived need for information about revenue received that is intended to be spent in a particular period and what has actually been spent in that period. However, in our view, information about whether an entity's resources were expended as intended for the period, similar to information about the performance of the entity in relation to its budget, is better imparted through a presentational approach rather than through the creation of separate elements. We consider that user-needs will be better served through presentation of the relevant information, in a separate statement or as a separate section of the primary financial statements, detailing such flows.

The IPSASB's rationale for proposing that deferred inflows and deferred outflows be recognised as elements is stated in paragraph BC 40. However, the concept underlying the recognition of deferred inflows and deferred outflows is unclear when assessed against that rationale. As proposed, not all deferred flows will be accounted for consistently. The deferred flows are limited to non-exchange, time-based flows (where the future period the resources can be used has been specified). Flows associated with project-based transactions are not considered to be deferred flows. For example, funding received by an entity that is restricted to a particular project (with no return obligation if not spent as specified) would give rise to immediate revenue recognition. However, if the restriction is based on time (i.e. the funds are to be spent in a particular time period), revenue is deferred. In our view, there is no conceptual basis for creating this difference in the treatment of the two types of restrictions. We think that the proposals could lead to structuring opportunities – for example, by converting a project-based restriction to a time-based restriction in order to achieve the desired accounting outcome without changing the substance of the arrangement.

In this regard, we note that BC45 also states that *“Multi-year grants with no substantive performance obligations and no return obligations would only be presented as deferred inflows or deferred outflows if the period over which those resources can be used is documented and recorded and the resources are actually used in those periods, as specified in the grant agreement.”* Notwithstanding any specified restrictions, there is no certainty that the costs associated with the performance or benefits to be derived will necessarily be incurred in the periods specified.

We consider that the IPSASB's justification in BC43 for including deferred inflows/outflows as elements to avoid standards-level inconsistency could equally be used as justification for taking a presentational approach to flows spanning more than one period. Including guidance on a presentational approach in the Framework would avoid both standards-level inconsistency and the creation of items that do not represent real- world phenomena for inclusion in the Statement of Financial Position.

If the IPSASB proceeds with the proposal, we request that the presentation suggestions set out in the alternative view of IPSASB member, Professor Mariano D'Amore, which

separates changes in deferred flows from revenue/expenses be given further consideration.

Moreover, the Basis for Conclusions should contain a clearer discussion of the problem that the proposal is trying to solve together with a more robust and conceptual basis for why and how, for public sector entities, the proposed approach:

- better meets the objectives of general purpose financial reporting;
- better meets the needs of users; and
- meets the qualitative characteristics of the information that is presented in GPFs.

- (b) If the IPSASB were to proceed with the proposal to recognise deferred flows as separate elements, we consider that a clearer distinction would need to be made between when an entity recognises a deferred inflow (because the inflows are specified to be used in a future period) and when it recognises a non-legal binding obligation/liability (because through, for example, past practice, it has created a valid expectation).

If deferred flows are limited to non-exchange transactions, the Framework should include definitions for “exchange transactions” and “non-exchange transactions”. At the standards level, measurement (and re-measurement) of such deferred flows will also need to be considered.

**Specific Matter for Comment 6:**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

- (a) We agree with the term “net assets” and its definition. This term (and its definition) is generally well understood by users and gives information about the residual interests in an entity.

We do not agree with the term “net financial position” or its definition. The purpose and usefulness of the “net financial position” is unclear. We consider that the introduction of this term will not assist users’ understanding of the financial position of an entity.

- (b) We strongly support the proposal to define “ownership contributions” and “ownership distributions” as separate elements.

In addition, we recommend that the term “ownership interests/equity” be separately defined as an element, as the residual interest in the assets of the entity after deducting all liabilities. We consider that it is important that all elements in each of the financial statements be defined. The “flow” elements in the Statement of Financial Performance are revenue and expenses. In the Statement of Financial Position, the “stock” elements are “ownership contributions”, “ownership distributions” and “ownership



interests/equity". In our view, it is conceptually incomplete if "ownership interests/equity" is not defined as an element.

Moreover, in our view, the IPSASB's proposal to limit the Statement of Financial Position elements to "ownership contributions" and "ownership distributions" has significant implications at the standards level for how certain items currently excluded from the Statement of Financial Performance are treated. For example, currently, asset revaluations are recognised in equity. As changes resulting from asset revaluations are neither ownership contributions nor ownership distributions, under the proposals, they will be recognised as revenue. We query whether this is the intention of the IPSASB. We recommend that the Framework clarifies how items in the existing statement of changes in net assets/equity will be treated under the proposals.

- (c) We suggest that in defining ownership contributions and ownership distributions as elements, paragraphs 6.3 and 6.4 should be reworded to ensure that the contributions and distributions from/to the external parties are "in their capacity as owners of the entity" to avoid the possibility of, for example, a grant from an external party being considered an ownership contribution.
- (d) We consider that ownership interests/equity should be defined as a separate element, this being the residual interest in the assets of the entity after deducting all liabilities.

#### **Specific Matter for Comment 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

We agree with the discussion on recognition. However, we recommend that the IPSASB considers whether "past event" should be discussed as part of recognition criteria under "existence uncertainty", rather than as part of the definition of "asset" and "liability". In this regard, we recommend that the IPSASB monitors the IASB's conceptual framework project with a view to aligning the two Frameworks on this issue.

We note that section 7 of the ED discusses existence uncertainty and measurement uncertainty as recognition criteria but does not set out any recognition thresholds or criteria for when an item should be recognised. In our view, existence uncertainty is effectively a means of determining whether an entity presently controls a resource or has a present obligation (that is, part of the definition of an element) and measurement uncertainty is effectively a means of choosing between different measurement bases (that is, part of the measurement). We recommend that the Framework includes guidance on measurement thresholds and criteria.

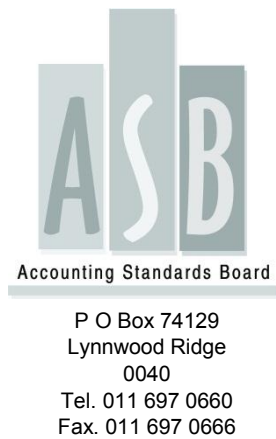
#### **Other Matters**

A Framework should contain conceptual ideals that standards (and practices) can strive towards. It should provide guidance on how issues will be dealt with at the standards level, with any departures from the concepts at the standards-level being appropriately justified.

Given that the major issues in the public sector (as distinct from the for-profit sector) relate to the power to tax and social policy obligations, we consider that the Framework should contain a discussion of, and provide a basis for, identifying the appropriate approach to accounting for, these issues.

We note the statement in paragraph 4.7 of the ED that the surplus/deficit for the period (as currently defined) "is the primary indicator of financial performance." We consider that the

Framework should contain a fuller discussion of the nature of financial performance, including operating surpluses, and what measure of operating surplus (or deficit) is meaningful for the management of public finances. This could include a discussion on whether gains or losses in assets arising from revaluations are qualitatively different in nature from gains and losses from actual flows of resources in and out of entities.



The Technical Director  
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Per e-mail [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)  
18 April 2013

Dear Stephenie,

**COMMENTS ON PHASES 2 AND 3 OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT**

We welcome the opportunity to provide comments on Phases 2 and 3 of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting. Our responses to the specific matters for comment are outlined in Parts A and B of this letter.

This comment letter has been prepared by the Secretariat of the ASB and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has undertaken a limited consultation with its constituents in the South African public sector. This limited consultation included auditors, preparers, users of the financial statements and professional bodies.

Board Members: Mr V Jack (Chairperson), Ms CJ Kujenga, Mr K Kumar, Mr K Makwetu, Mr F Nomvalo,  
Mr G Paul, Ms N Ranchod, Mr B Colyvas, Ms R Rasikhinya, Ms T Coetzer  
Alternates: Ms L Bodewig, Mr J Van Schalkwyk  
Chief Executive Officer: Ms E Swart



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

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

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Erna Swart'.

Erna Swart

Chief Executive Officer

## **PART A - PHASE 2 ELEMENTS AND RECOGNITION**

### **Specific matter for comment 1**

*Do you agree with the definition of an asset? If not, how would you modify it?*

Yes, we agree with the definition of an asset. In particular, we believe that referring to “the ability” to provide economic benefits or service potential is an improvement from the previous definition as this more appropriately reflects the nature of public sector assets.

### **Specific matter for comment 2**

*(a) Do you agree with the definition of a liability? If not, how would you modify it?*

Yes, we agree with the definition of a liability.

*(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

We would re-name these definitions. The phrase “non-legal binding obligations” is cumbersome. We propose using the terms “legally binding” obligations and “other binding” obligations. We do not believe that the name “non-legal binding obligations” provides a better description of these obligations than just using the phrase “other binding obligations”. The types of obligations envisaged by “other” or “non-legal binding” only becomes clearer once paragraph 3.10 has been read.

Alternatively, we propose rephrasing the term “non-legal binding” to “non-legally binding”.

### **Specific matter for comment 3**

*Do you agree with the definition of revenue? If not, how would you modify it?*

We do not agree with the definition of revenue, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.

Consequently, we propose amending the revenue definition as follows:

Revenue is ~~(a) inflows of economic benefits or service potential during the current reporting period, which increase the net assets of the entity, other than (i) ownership contributions; and (ii) increases in deferred inflows; and (b) inflows during the current reporting period that result from decreases in deferred inflows.~~

If the definition of revenue is retained, we suggest the following amendments:

- Part (a) - A reference should be added to inflows of “economic benefits or service potential”.
- Part (b) – It is unclear whether decreases in deferred inflows are “inflows during the current reporting period”? As such we suggest referring only to “decreases in deferred outflows” in part (b).

We have noted in BC 38 that the Board decided not to separately define gains and losses from revenues and expenses. While we agree that gains and losses are not separate elements, we are of the view that there is merit in considering whether these items should be disclosed separately from revenue from operating activities. Gains and losses typically do not arise from recurring transactions, even though these may be part of an entity’s operations (for example, it could be argued that disposing of assets at the end of their useful



lives is part of an entity's operations). If these gains and losses are included with revenues and expenses that are recurring, the predictive value of the information may be compromised. Consequently, we propose that the Board consider separate presentation for gains and losses at a Standards level.

#### **Specific matter for comment 4**

*Do you agree with the definition of expenses? If not, how would you modify it?*

We do not agree with the definition of expenses, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.

As a result, we propose amending the expense definition as follows:

Expenses are ~~(a) inflows of economic benefits or service potential during the current reporting period, which decrease the net assets of the entity, other than (i) ownership distributions; and (ii) increases in deferred outflows; and (b) inflows during the current reporting period that result from decreases in deferred outflows.~~

If the definition is retained, we suggest making similar changes to those proposed to the revenue definition outlined above.

#### **Specific matter for comment 5**

*(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*

We do not agree with the decision to define deferred inflows and outflows as separate elements for the following reasons:

- The proposed approach does not reflect economic reality at a given point in time. If an entity has gained control over resources over which no present or future obligation exists, then those resources should be reflected as an inflow in the current period as revenue.
- Deferrals do not represent actual events or occurrences during a period; they merely reflect that a period of time has elapsed. For example, an entity might be given funding to undertake certain activities in both current and future periods. Under the deferred inflows and outflows approach, an entity would recognise those resources received when it has reached the relevant reporting period, irrespective of whether it has actually undertaken any activity. We are therefore of the view that using the passing of time as a measure of whether "flows" are revenue or expenses is an inappropriate reflection of the resources available to an entity at a particular date.
- The notion of deferrals cannot be established without introducing "rules" into a principle based Conceptual Framework. It is also inappropriate that these rules are designed to distinguish between exchange and non-exchange transactions. Conceptual principles should be adequate to apply to a range of transactions, irrespective of their nature.

Based on these comments, we are of the view that the assets and liabilities definitions should be used as clear parameters within which to recognise revenues and expenses. If resources are received in a reporting period and no obligation exist over those resources, then revenue should be recognised in that period, and vice-versa for the recognition of expenses.

We support the view in BC42 that the consequence of receiving resources “earmarked” for future periods is a presentational issue (to be dealt with at a Standards-level) rather than a conceptual issue. We believe that that this issue should be addressed as part of the Board’s current work plan, particularly in relation to amendments to IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

- (b) *If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:*
- (i) *Decision to restrict those definitions to non-exchange transactions? If not, why not?*
  - (ii) *Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

If deferred inflows and outflows are retained as separate elements, we agree that they should be limited to non-exchange transactions. The fact that consideration is exchanged between parties in an exchange transaction, the recognition of revenues and expenses is automatically limited based on parties’ performance. We have noted additional comments on the explanatory paragraphs that would need to be addressed if these elements are retained.

#### **Specific matter for comment 6**

- (a) *Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*

We do not agree with the term “net financial position” because we do not agree with the concept of deferred inflows and outflows. We agree with the term “net assets” and its description, including the statement that it is not an element itself. Similar to “net financial position”, we are of the view that “net assets” can be a positive or negative residual amount and this should therefore be acknowledged in the context of “net assets” and not only “net financial position”.

- (b) *Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

We agree with the decision to define ownership contributions and distributions as these represent the “capital contributions” in the traditional sense which, although infrequent in the public sector, do exist. If these elements are not separately defined, it would be difficult to identify and distinguish such arrangements from transfers and/or liabilities.

- (c) *If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*

We agree in principle with the proposed definitions, but would suggest the following amendments:

Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners [1], that establish or increase their interest in the net assets of the entity.

[1] We are of the view that it should be clear that external parties that are making ownership contributions do so in their capacity as owners. This is a particularly relevant issue because many entities are funded by external parties merely

because of the funding mechanisms in place in the public sector. These transfers are not always made in an “ownership” capacity. Consequently, we would suggest adding this additional wording to make it clear that the contribution must be made as an owner rather than just a funder. Alternatively, this should refer only to “owners”.

[2] It needs to be clear from the definition that there is not just an overall increase in the net assets of the entity (which the current wording seems to imply), but that it is the owners’ interest that has been established or increased.

Ownership distributions are outflows of resources from the entity, distributed to ~~external parties~~ owners [1] that return or reduce an interest in the net assets of the entity.

[1] Ownership distributions can only be made to owners as a result of their interest, and the reference to “external parties” should therefore be changed.

(d) *Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

We agree that ownership interests should not be defined separately as these indicate how an entity’s interest in another entity arises or established, rather than it being a separate element itself. How ownership interests are demonstrated varies from jurisdiction to jurisdiction and, as a result, we are of the view this should be addressed as a standards-level issue. It would however be useful at a Standards-level how ownership interests can be demonstrated as this is often a key factor in distinguishing between revenue and ownership contributions.

#### **Specific matter for comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

We do not agree that uncertainty related to the existence of an item should only be considered when it is measured. If this approach is followed, then an entity will recognise all assets and liabilities that meet the relevant definition of an element and can be measured reliably. This may result in a number of items being reflected in the statement of financial position at a low value because of uncertainty around the inflow of economic benefits or service potential. We do not believe that this adequately reflects how a government has exercised accountability over its resources and obligations. This approach merely reflects the quantification of all an entity’s resources and obligations and is a highly complex mathematical exercise. Recognition on this basis might also increase use of a current value measurement bases as entities would need to quantify uncertainty on an ongoing basis. We do not believe that it will enhance decision-making and accountability over those assets and liabilities that an entity manages and is accountable for.

We propose using a threshold (consistent across assets and liabilities) for the recognition of assets and liabilities that best represents the use of an entity’s resources by an entity. The quantification of the rights and obligations currently envisaged by the proposed approach may, in certain circumstances, be useful as additional information disclosed in the notes to the financial statements.

As an alternative, we suggest using probability as well as reliable measurement as criteria for the recognition of elements.

## Other comments

Paragraph reference	Comment
<b>Assets</b>	
2.4	This paragraph explains the nature and uses of public sector assets rather than explaining the definition of an asset. As a result, it may be more appropriate for this paragraph to be included in the Basis for Conclusions.
2.6(b)	Part (b) refers to the ability of the entity to direct other parties on the nature and manner of use of the benefits. While we agree with this, we are of the view that the entity must be able to direct the other party so that it (the entity) benefits from this ability.
2.7(b)	It is unclear how an entity has “The means to ensure that the resources are used to achieve its objectives”, considering legal ownership and access to benefits are outlined in (a) and (b) respectively.
2.7	The wording below (d) seems overly prescriptive, particularly stating that if the ability to restrict or deny access does not exist then it is questionable whether an entity has an asset. BC14 also notes that this is crucial in deciding whether a resource is an asset. There seems to be an inconsistency in the drafting of the exposure draft.
2.7	The “and” between (c) and (d) should be replaced with “or” as it is not necessary to meet all the criteria.
2.8	The 9 <sup>th</sup> line of the paragraph starts “Taking the example of tax....” Explains how the asset definition is applied to taxes. While we support the conclusions reached in the last sentence, it seems inappropriate to discuss the application of the definition to specific transactions and events in the Framework. It may be more appropriate to use this in the Basis for Conclusions to illustrate the Board’s consideration in deliberating the various aspects of the asset definition. We would however retain the last sentence of the paragraph subject to the editorial amendment noted below.
2.8	<p>If the paragraph is retained, we suggest the following improvements to the text of the paragraph:</p> <p>It is essential to determine the point or event at which such rights or powers <u>give rise to an asset of the entity</u> <u>gives the entity the ability to access the service potential or economic benefits</u>. There are a number of potential points at which such events may occur. Taking the example of tax, the following points in the process may be identified: (a)...(d). When the power is exercised and the rights exist to receive service potential or economic benefits or service potential, <u>as asset arises a resource under the control of the entity exists</u>.</p>
BC6.	<p>The last part of this paragraph explains when certain unconditional rights may give rise to assets, for example, if they are acquired in an open, active and orderly market. It is inappropriate to determine accounting requirements for specific transactions and events in the Framework. It is also inappropriate to have such a statement in the Basis for Conclusions. We propose amending the paragraph as follows:</p> <p>“The IPSASB noted that there can be a large number of such rights and concluded that such unconditional <u>promises rights</u> may give rise to assets, if</p>

	<del>the entity has paid for them or if the unconditional right has acquired an identifiable value in an open, active and orderly market.</del> The identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue.”
BC10	To align this paragraph with the paragraph 2.6 of the exposure draft, we suggest amending the paragraph as follows: “Control entails...(a)...,and <u>or</u> (b) the ability...”
BC 11	<p>The third sentence of this paragraph states that “In addition, control can be erroneously applied to a resource in its entirety and not the individual benefits that accrue from the resource”. This statement may give rise to practical application issues. It is often difficult in practice to determine whether an entity enjoys the economic benefits or service potential of an asset as there might be other entities that also enjoy either the economic benefits or the service potential. For example, in a service concession arrangement the grantor might enjoy economic benefits from the asset, while an operator might enjoy the economic benefits of the same asset.</p> <p>The statement, as included in BC 11, seems to imply that an entity needs to assess various aspects of an individual assess to test whether they control that part of the asset, which might not be feasible and may result in inappropriate accounting. This sentence should either be deleted or the principle clarified.</p>
BC14	The opening sentence notes that the existence of access to a resource is “crucial” to the meeting the asset definition. Paragraph 2.7 notes that this is merely an “indicator”. As a result, there seems to be an apparent inconsistency in the wording.
BC16	The second last sentence refers to the fact that the IPSASB considered the “risks and rewards approach”. The first and second sentences however refer to an “economic ownership” approach which focuses on the entity’s exposure to the underlying economic attributes that contribute to the asset’s value to the entity. Based on this description, it is unclear whether these two approaches are in fact the same or different.
BC19	The first sentence of this paragraph refers to “Key Characteristics”. This may need to be updated based on the Board’s decision to modify this document into the Preface to the Conceptual Framework. This is pervasive throughout the document.
<b>Liabilities</b>	
3.2	The word “requirement” is inappropriate in this sentence. We would propose amending the paragraph as follows: “A present obligation is a legal or other [non-legally] binding <u>obligation requirement</u> ...”
3.10(c)	The Basis for Conclusions makes it clear that non-legal binding obligations do not arise from “moral compulsion”. It should be clear in (c) that the entity’s no realistic alternative but to settle the obligation is based on considering economic factors only.
<b>Revenues and expenses</b>	
4.3	The second sentence refers to a “specified” future period. It is unclear who should “specify” this reporting period. Similar to liabilities, we suggest that the wording should explicitly state that this period must be specified by an

	external party. This should also be clarified in paragraphs 5.1 and 5.2.
<b>Recognition</b>	
7.3	The discussion on a “past event” is adequately explained under the asset and liability discussions and it is not necessary to again discuss this aspect in paragraph 7.3. As a result, we propose retaining only the first sentence of paragraph 7.3.



## **PART B – PHASE 3 MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS**

### **General**

We have observed that the drafting and style of the proposed text of Phase 3 is different to Phase 2. The drafting style is similar to that of a Consultation Paper as it seems to “discuss” the measurement bases rather than outline what the concepts and principles are that should be used in selecting a measurement basis when reporting assets and liabilities in the financial statements. While we found the discussion helpful, we believe that location in the Framework itself may be inappropriate.

We therefore suggest that drafting of this Chapter should be refined and made more precise and succinct. We are of the view that concepts and principles should be described with a brief discussion on how they should be applied. It may be appropriate to summarise some of the material into a table or, to include it in the Basis for Conclusions.

### **Specific matter for comment 1**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

Chapters 2 and 3 of the exposure draft outlines, and includes detailed discussions about, an entity’s assessment of financial capacity, operating capacity and cost of services in relation to the various measurement bases identified. These assessments are however not included in the discussion in Chapter 4 where the “Selection of Measurement Bases and Measurement Models” is discussed. We are of the view that the assessment of whether a measurement basis provides information about financial capacity, operating capacity or cost of services, is an important part of the selection process.

In selecting a measurement basis, the IPSASB or an entity should identify what the measurement objective should be, based on the underlying asset or liability to be measured. As a result, we support the approach to expressing a measurement objective as outlined in the Alternative View (first part of paragraph AV26) as being “*To select those measurement attributes that fairly reflect the financial capacity, operating capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*” [Would replace “and” with “or”, or alternatively include both “and/or” as it is unlikely that a measurement basis will provide information about all three financial capacity, operating capacity and cost of services.]

We do however agree with the Board’s view in BC4 that it is inappropriate to link the measurement objective to a specific measurement basis or model as this may overly restrict the use of measurement bases or models at a Standards level. We are also of the view that because the qualitative characteristics and constraints should be a key consideration in the selection of a measurement basis or model, the measurement objective cannot be linked to particular bases or models.

## Specific matter for comment 2

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

We agree with the current value measurement bases outlined for assets. In particular, we support the exclusion of fair value from this list as it is not a measurement basis in itself but rather a method of determining an exit based market value under particular circumstances.

## Specific matter for comment 3

*Do you agree with the approaches proposed in Section 4 for application of:*

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

While we support the application of the two models outlined in Section 4 in certain circumstances, we do not believe that these two models should be described in the Framework. We are of the view that describing these two models, and their application to particular circumstances, should be done at a Standards-level. We also do not believe that the models are described in sufficient detail in the Framework for them to be appropriately applied either by the IPSASB or by preparers of the financial statements. As a result, we propose the following:

- The Conceptual Framework could acknowledge that particular models may need to be developed at a Standards-level to assist in selecting a measurement basis.
- Develop IPSASs that outline and describe the application of these measurement models to particular circumstances.

## Specific matter for comment 4

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

We agree with the proposed measurement bases for liabilities.

## Detailed comments on exposure draft

The following table outlines our detailed comments on the exposure draft.

Paragraph reference	Comment
1.1	This paragraph largely repeats principles outlined in the Phase 1 chapters. Consequently, it may need to be deleted when the final chapter/omnibus Conceptual Framework is being finalised.
1.3(a)	The description of “financial capacity” refers to “the capacity of the entity to continue to fund its activities and meet its operational objectives in the future”. Many of the discussions/assessments of financial capacity in

	Chapter 3 focus on whether the measurement basis reflects the selling price of an asset. It is unclear why this is the focus of the discussions as it does not seem to relate directly back to the description outlined in paragraph 1.3. We therefore suggest that the description in paragraph 13(a) should be revisited to explain how this “capacity” is demonstrated.
1.5	The second sentence refers to entry values reflecting the “cost of purchase”, while exist values represent the “cost of sale”. This description could be mistaken for the transaction costs related to the purchase or sale of the asset. Consequently, we propose amending this sentence as follows:  “For assets, entry values reflect the purchase price paid to acquire an asset, while exist values reflect the selling price of the asset.”
2.1	This paragraph discusses allocating the cost of the asset to reporting periods. This process is not unique to the “historical cost” measurement basis. As such, it should not be discussed as feature of this measurement basis, and should only be discussed in the context of an assessment of “cost of services” rather than an attribute of a particular measurement basis.
Below 3.2, Table 1	This table should be expanded to outline what “objective” (financial capacity, operating capacity or cost of service) the measurement basis best fulfils.
3.3	The definition of market value currently refers to a liability being “settled”. We are of the view that this should be replaced with “transferred” as this best describes a market value for a liability. In addition, paragraph 5.6 discusses the “transfer” of a liability rather than the settlement of a liability.  The reference to “settled” could be confused with the “Cost of fulfilment” in chapter 5.
3.4	The opening sentence of this paragraph states that “At acquisition, market value and historical cost will be the same, if transaction costs are ignored.”  In reality, market value and historical cost may not be the same as the one is an exit price, while the other is an entry value. We would therefore suggest that this sentence be reworded to state that market prices and historical cost <u>may</u> be the same.
3.11	The second sentence of this paragraph notes that “If market-based information is used for pricing decisions, the users of services could be charged with higher costs than those actually incurred”. This sentence implies a close linkage between the costs incurred and the tariffs charged by entities. While this may be true for the private sector, it is unlikely in the public sector where users either pay nothing, or only a nominal fee, for goods and services received.
3.13	From the opening sentence, it is unclear whether market value provides an indication of the operational capacity of an entity.  It is also unclear why the statement in the last sentence is necessary.
Section on replacement cost	Many of the paragraphs in this section refer only to “service potential” (e.g. 3.18(b) and 3.20). As assets embody both economic benefits or service potential embody both the paragraphs should refer to both economic benefits and service potential.
3.41	The definition of value-in-use refers to “remaining service potential or economic benefits.....” Value-in-use often makes use of a discounted cash flow analysis. As such, we are of the view that definition should also refer to the expected cash flows.

BC27.	This paragraph states that the fair value model should only be applied when the market is inactive. This has not been articulated in the main body of the exposure draft.
4.11	If the section on deprival value is retained, then paragraph 4.11 should be reworded as the current descriptions are not useful in the context of the diagram.

## Conceptual Framework Exposure Draft 2

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

Comments from ACCA  
22 April 2013

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

[www.accaglobal.com](http://www.accaglobal.com)

Further information about ACCA's comments on this matter can be obtained from:

**Gillian Fawcett**  
Head of Public Sector  
Email: [gillian.fawcett@accaglobal.com](mailto:gillian.fawcett@accaglobal.com)

ACCA welcomes the opportunity to comment on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements. The ACCA Global Forum for the Public Sector has considered the matters raised and their views are represented below.

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## SUMMARY

ACCA is supportive of the development of a conceptual framework for public sector accounting standards as set out in our previous correspondence. We also welcome the IPSASB making the completion of the framework a priority in 2013/14.

On the whole we agree with the definitions and terms set out in the Exposure Draft (ED) with one suggestion for improvement as highlighted in specific comment 2.

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## SPECIFIC COMMENTS

**1. Do you agree with the definition of an asset? If not, how would you modify it?**

We agree with the definition of an asset and we agree that control is an important criterion by which assets and liabilities are recognised. However, the issue of control is a long standing issue. For example, in the UK the NAO's definition of control is different to that of the treasury, especially in relation to what constitutes a public and non-public asset. Also, there is an issue of many years before a temporary transaction transpires to be a more permanent asset/liability. Given both sets of circumstances we believe that it is important for IPSASB to address the issue of 'control' within the conceptual framework.

**2. (a) Do you agree with the definition of a liability? If not how would you modify it? (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

We agree with the definition of what constitutes a liability. However, we believe that the definition should be broadened to include 'provisions' as



this would capture items where only best estimates of future expense can be determined. In some countries 'provisions' represent a significant proportion of liabilities. For example, the Whole of Government Accounts for the UK (2010-2011) makes significant provisions for items such as clinical negligence claims, nuclear decommissioning costs and legal cases etc.

We agree with the description of non-legal binding obligations.

**3. Do you agree with the definition of revenue? If not, how would you modify it?**

Agree.

**4. Do you agree with the definition of expenses? If not, how would you modify it?**

Agree.

**5. (a) Do you agree with the decision to define deferred inflows and outflows as elements? If not, why not? (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the (i) decision to restrict those definitions to non-exchange transactions? If not why not? (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?**

We agree with the definition of deferred inflows and deferred outflows and for them being classified as separate 'elements' within the ED. In our view this will help avoid confusion for the user of financial statements, as well as increase financial transparency.

**6. (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions? (b) Do you agree with the decision to define ownership distributions as elements? If not, why not? (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify**

them? (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

We agree with the proposed terms and definitions.

7. Do you agree with the discussion on recognition? If not, how would you modify it?

Agree.



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Our ref **KK/288**  
Contact **Katja van der Kuij**

22 April 2013

Dear Ms Fox

**Conceptual Framework Exposure Draft 2 for General Purpose Financial Reporting by  
Public Sector Entities: Elements and Recognition in Financial Statements**

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') entitled *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*, dated November 2012. We have consulted with, and this letter represents the views of, the KPMG network.

We have considered the specific matters for comments in the ED. We have specific concerns on some of the elements which would result in us not supporting all of the proposals in the ED. These follow below:

***Specific Matter for Comment 1***

You ask whether "*we agree with the definition of an asset and if not, how we would modify it*"

We generally agree with the definition of an asset; however we would be more specific with regard to the economic benefits and service potential and include the term "**future** inflows of economic benefits or service potential." In addition the term "ability to provide" does not necessarily convey the **expectation** of the future inflows of cash or other economic benefits to the entity. It may be argued that it is not sufficient for an asset to only have the ability to provide future inflows of cash or other benefits but that the future inflows are actually expected to flow to the enterprise.

We further recommend that the ED explicitly state that legal ownership is not an essential prerequisite for recognition of an asset.



**KPMG IFRG Limited**  
Conceptual Framework ED3  
22 April 2013

### ***Specific Matter for Comment 2***

*You ask whether “we agree with the definition of a liability and the definition of non-legal binding obligations and if not, how would you modify it”*

We generally agree with the definition of a liability. We note that the definition does not indicate when the outflow of service potential or economic benefits from the entity will occur. We would consider adding **“on settlement of the present obligation”** at the end of the definition.

We agree with the definition of non-legal binding obligations. We acknowledge the essential need to determine the point at which a non-legal obligation becomes binding and gives rise to a liability. In practice it is likely that public sector entities will have to actively review and monitor delivery against legislated commitments to identify non-legal binding obligations.

We note however, that the terms legal versus non-legal could be interpreted differently in practice. We therefore recommend using other terms for example, stating that the obligation occurred as a result of a contract or as a result of the government acknowledging its responsibility to compensate the public for a particular damage (for example, damage because of a hurricane). The government may not be responsible for this but elected to support the affected community by compensating the citizens for part of their losses. One could argue that the government, in acknowledging that it will pay out compensating damages for this type of event, it became a legal obligation).

We also note that definitions relating to non-legally binding obligations should not be too restrictive at the framework level and further clarification/refinement be provided at a standards level.

Furthermore, we note that paragraph 3.12 is taking a view as to what a liability is, but is actually in principle indicating when a liability should be recognised, not when it exists.

We do not agree with the reasons put forth for not referring to stand ready performance obligations - if the issue is the definition is too broad, then we suggest this be refined at a standard level.

### ***Specific Matter for Comment 3***

*You ask whether “we agree with the definition of revenue and if not how would we modify it.”*

The current definition of revenue in the conceptual framework refers to “inflows” which increase the “net assets of an entity.”

We note that the definition refers to inflows versus **“gross inflows”** as set out in the IPSAS on Revenue. The revenue definition in the relevant standard and the revenue definition in the





**KPMG IFRG Limited**  
Conceptual Framework ED3  
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conceptual framework would appear to be inconsistent. We recommend that inflows in the conceptual framework be amended to “**gross inflows**.”

***Specific Matter for Comment 4***

You ask whether “*we agree with the definition of expenses and if not, how would you modify it*”

The current definition of expenses in the conceptual framework refers to “outflows” which “decrease the net assets of an entity”. We recommend that the definition expand on the nature of outflows (**decrease in economic benefits or service potential**) and also should explicitly consider whether consumption of assets/incurrence of liabilities can be added to the definition as this is not explicitly mentioned as follows:

“Expenses are

- (a) Outflows during the current reporting period which decrease the economic benefits or service potential during the current reporting period in the form of outflows or consumption of assets or incurrence of liabilities ~~net assets of an entity~~, other than: .....
- (b) .....

***Specific Matter for Comment 5***

You ask whether “*we agree with the decision to define deferred inflows and deferred outflows as elements and if we do whether we agree to restrict those definitions to non-exchange transactions*”

The introduction to the ED (Paragraph 1.2) states that “Elements are the building blocks from which financial statements are constructed in a way that provides users with information that meets the objectives of financial reporting [accountability and decision making] and contributes to the qualitative characteristics [relevance, faithful representation, comparability, verifiability, timeliness and understandability] of financial reporting.”

The distinguishing of inflows and outflows specified for consumption or use in a future reporting period may support decision making and accountability in the public sector. We believe this distinction may also assist in measuring performance of the entity especially for public entities that have a direct service delivery mandate.

We however note that we have specific concerns of defining these deferred inflows and deferred outflows as specific elements. In our view, the intention of the IPSASB is to distinguish “pre-payments” from other assets and liabilities. For example, a deferred outflow can be interpreted as a prepaid expense. We do not believe that this intention has been achieved and there is need for further distinction and clarification. Some of the concerns may be more appropriately addressed at the standards level rather than at the conceptual framework level. Accordingly, we



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suggest there needs to be more examples from the IPSASB of relevant transactions and the accounting and reporting of those transactions if these elements are to remain in the conceptual framework.

In the definition of a deferred outflow, we would consider replacing the term “provided” to “committed” as follows:

“A deferred outflow is an outflow of service potential or economic benefits **committed** to another entity of party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.”

We are concerned with establishing a “non-exchange transaction” as a key distinguishing feature when the term is not defined in the framework. If its use continues in its current form then non-exchange transactions should be defined and clarified in the framework. We also note that in some countries, for example, Australia, the Australian Accounting Standards board, as part of an ongoing project “income from transactions for not-for-profit entities”, are moving away from the non-exchange transaction concept. The move is in line with the Revenue from Contracts from Customers’ exposure draft issued by the IASB i.e. whether a performance obligation exists, which determines whether you get to recognise revenue and effectively a liability to perform, as a result this approach does not distinguish on the nature of transactions but the substance of what the transaction is. Having said this however, we do acknowledge that there are differences across the countries and some of the concepts may already be in existence which could lead to differing views.

#### ***Specific Matter for Comment 6***

*You ask whether “we agree with the term net assets and net financial position and the definitions”*

We agree with the need to distinguish between net assets (difference between assets and liabilities) and the assets and liabilities after deducting deferred inflows and adding deferred outflows. We however believe that the current term “net financial position” may seem ambiguous and lack clarity for users of the financial statements. Deferred inflows and deferred outflows when meeting the recognition criteria will be classified under liabilities and assets on the face of the statement of financial position. All items recognised on the statement of financial position make up the “net assets” of the entity and to further distinguish these “net assets” into “net financial position” may be confusing or not provide usefulness in this case. Further clarity of how these would practically be distinguished on the statement of financial position is required.

*You ask whether “we agree with the decision to define ownership contributions and ownership distributions as elements and whether we agree with these definitions”*





*KPMG IFRG Limited*  
*Conceptual Framework ED3*  
*22 April 2013*

We agree with the decision to define ownership contributions and ownership distributions as elements.

The definition of ownership contributions states that they are “inflows of resources to an entity”. We would consider expanding on the nature of inflows as future economic benefits or service potential that have been contributed to the entity. Likewise the definition of ownership distribution should expand the “outflows” to “outflows of future economic benefits or service potential”.

Paragraph 6.7 relating to ownership contributions may be expanded to highlight that the contributions that give a right/ **entitlement** to a return or increased return to owners...**can be sold, exchanged, transferred or redeemed at the discretion of the owners or their representatives.**

We also note, based on our experience, having distributions and contributions to owners confined to those that establish or increase an interest is not all encompassing, as transfers into an entity which has an ownership structure of shares does not necessarily increase ownership interest percentage but should also not be recognised as revenue.

*You ask whether “we think that Ownership interests should be defined in this Conceptual Framework?”*

Ownership interest should be defined in this conceptual framework due to the transfer of assets and liabilities/operations that happen within the Public sector. It is necessary to clearly outline and clarify the differences between ownership interest, contributions and distributions.

***Specific Matter for Comment 7***

*You ask whether “we agree with the discussion on recognition and if not, how would we modify it”*

We agree with the discussion on recognition. Recognition is a separate process after a transaction or other event has met the definition of an element.

KPMG appreciates the opportunity to respond to this Exposure Draft. Please contact Archie Johnston at +1 604 527 3757, Peter Greenwood at +1 604 691 3187 or Katja Van Der Kuij at +44 20 7311 8871, if you wish to discuss any of the issues in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

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April 22, 2013

Ms. Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
stepheniefox@ipsasb.org

Dear Ms. Fox:

This letter is the Governmental Accounting Standards Board's response to the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework Exposure Draft 2 (CF-ED2), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*. We appreciate the opportunity to provide comments. This letter was prepared by and reflects the views of staff of the GASB. The members of the GASB reviewed this letter and did not object to its submission to the IPSASB. However, it should not be considered to represent the views of the Board as a whole or of individual Board members.

We strongly support the development of a conceptual framework and encourage the IPSASB to continue its efforts to complete its conceptual framework. Concepts provide the basis for guiding the IPSASB in development of accounting standards that are internally consistent and best promote the objectives of financial reporting. Additionally, concepts can provide useful contextual information for users of financial statements and provide broad guidance for preparers of financial statements in circumstances in which standards do not address the transactions being reported.

## **Responses to Specific Matters for Comment**

### **Specific Matter for Comment 1**

*Do you agree with the definition of an asset? If not, how would you modify it?*

We agree with the principal components of the definition of an asset, but believe that the specific language of the definition could be made clearer. We believe that the phrase "ability to provide an inflow of service potential or economic benefits" could be clarified. This phrase could be interpreted to describe future resources, rather than present resources and it seems to imply that the services flow to the government, rather than to the citizens of the government. We suggest that a simpler way to express this idea would be to describe resources as *items with present service capacity or economic benefits*.





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### **Specific Matter for Comment 2**

- (a) *Do you agree with the definition of a liability? If not, how would you modify it?*
- (b) *Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

We agree with the proposed definition of a liability and have no suggestions for modifying it.

We also agree with the description of non-legal binding obligations. The discussion of attributes that may give rise to a non-legal binding obligation are clear and useful as is the specific example of a circumstance that may give rise to a non-legal binding obligation.

### **Specific Matter for Comment 3**

*Do you agree with the definition of revenue? If not, how would you modify it?*

We agree with the definition of revenue provided that the term *inflows during the current reporting period* is synonymous with the *increase in net assets*. We appreciate the view that, to the extent possible, elements of financial statements should be defined independently, and that ideally the elements of the statement of financial position do not take precedence over the elements of the statement of financial performance. However, that may not be possible to achieve completely. In the proposed language for the definition of revenue, it appears that all inflows during the current reporting period also increase the net assets of an entity; however, it does not also provide the assurance that all increases in the net assets of an entity are inflows during the reporting period. It leaves open the possibility that there are increases in the net assets of an entity that are something other than inflows of the current reporting period.

### **Specific Matter for Comment 4**

*Do you agree with the definition of expenses? If not, how would you modify it?*

Please see our comments on Specific Matter for Comment 3. The definition of expenses uses similar language.

### **Specific Matter for Comment 5**

- (a) *Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*



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Page Three

*(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:*

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?*
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

We strongly support the decision to define deferred inflows and deferred outflows as elements. We agree that there are circumstances when it is inappropriate to recognize increases or decreases in net assets as either revenues or expenses of the period and when the resulting balances do not meet the definition of either a liability or asset. We agree with the rejection of the other comprehensive income model or the dilution of the definitions of assets and liabilities as potential solutions to this issue. Identification of these circumstances as deferred inflows and deferred outflows is the most transparent way of representing this information.

However, we do not agree with all components of the definitions of deferred inflows and deferred outflows. Specifically, we do not see the need for the limitation to use in a specific future reporting period and to use in association only with non-exchange transactions.

In Concepts Statement No. 4, *Elements of Financial Statements*, the GASB identified and defined deferred outflows of resources and deferred inflows of resources—elements similar to the IPSASB's proposed deferred outflows and deferred inflows. As a subsequent standards-setting project the GASB evaluated items previously reported as assets and liabilities to determine whether they met the definitions of assets and liabilities or whether they met the definitions of and should be reported as deferred outflows of resources and deferred inflows of resources. The result of the project was the issuance of Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement requires the following items be reported as deferred outflows of resources and deferred inflows of resources:

- For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt
- Resources associated with imposed nonexchange revenue transactions received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements
- Resources received from providers of resources in government-mandated or voluntary nonexchange transactions before time requirements are met, but after all other eligibility requirements have been met
- Sales of future revenues





Ms. Stephenie Fox  
April 22, 2013  
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- The gain or loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life
- Points received by a lender in relation to a loan origination or a loan held for investment
- Origination fees, including any portion related to points, direct loan origination costs, and other fees in relation to loans held for sale
- In regulated industries, certain rates intended to recover costs that are expected to be incurred in the future and gains and other reductions of net allowable costs allocated to customers of future periods

Additionally, other GASB standards require that deferred outflows of resources and deferred inflows of resources be reported for the change in the fair value of certain hedging derivatives and for upfront payments received pursuant to a service concession arrangement.

Many of these circumstances arise through exchange transactions and for some the associated future periods may be dependent on circumstances in those future periods and, therefore, may not be associated with specified future periods. We believe that these examples support removing the requirements that deferred inflows and outflows be limited to those associated with a specific future period and to those arising in nonexchange transactions.

We appreciate the position of the IPSASB; however, we question whether presenting the items listed above, for example, sales of future revenues, as inflows and outflows (as they do not meet either GASB's or the IPSASB's proposed definitions of assets and liabilities) provides the most transparent, understandable, and decision-useful information for users of financial statements.

#### **Specific Matter for Comment 6**

- Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*
- Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*
- If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*
- Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

We agree with the terms and definitions of net assets and net financial position.





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However, we have difficulty understanding the definitions of ownership contributions and ownership distributions and their relationship to the statement of financial position, of which they are a part according to paragraph 6.2. The definitions refer to inflows and outflows of resources; however, the statement of financial position is a statement that reports balances at the end of the specified period. To be reported as a balances at a specific date, perhaps the accumulated ownership contributions and distributions (ownership interest) should be defined instead.

Another concern we have with the elements and definitions associated with net asset and net financial position is how the statement of financial position articulates with the statement of financial performance. It seems clear that ownership contributions and distributions are not a part of reporting financial performance and should in some manner be presented in the statement of financial position. It is not clear how the net change in financial position is related to the indicator of financial performance on the statement of financial performance and other elements, such as ownership contributions and distributions. We recommend that the articulation between the elements of both financial statements be discussed explicitly.

#### **Specific Matter for Comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

We agree with the discussion of recognition in financial statements; however, we noted an inconsistency between the discussion in paragraph 7.1 and the additional discussion of measurement uncertainty in paragraph 7.5. The first paragraph indicates that one of the features an item must possess to be recognized in the financial statements is that it can be measured in a way that meets the qualitative characteristics. In paragraph 7.5, the discussion addresses relevance and faithful representation, but does not address the other qualitative characteristics. This appears to imply that relevance and faithful representation are the most important qualitative characteristics.

#### **Other Comment**

We generally agree with the discussion when rights and powers of government give rise to assets in paragraph 2.8. However, we believe that additional clarity should be provided. The nature of the right described in (c) is unclear. Does it refer to for example, the right to issue licenses or to the right to receive tax proceeds (a receivable)? The concluding sentence does not clearly refer to any of the potential recognition points (a) through (d). We inferred that recognition of an asset would not occur until all of the events, as applicable, have occurred.



Ms. Stephenie Fox  
April 22, 2013  
Page Six

Thank you for the opportunity to participate in the due process on this project. If you have any questions, please contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth R. Schermann".

Kenneth R. Schermann  
Senior Technical Advisor

A handwritten signature in black ink, appearing to read "Roberta E. Reese".

Roberta E. Reese  
Project Manager





Richard F. Chambers  
Certified Internal Auditor  
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April 30, 2013

International Public Sector Accounting Standards Board (IPSASB)  
International Federation of Accountants (IFAC)  
277 Wellington Street West  
Toronto, Ontario M5V 3H2 CANADA

Response e-mailed to [www.ifac.org](http://www.ifac.org)

RE: Conceptual Framework Exposure Draft ED 2, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

Conceptual Framework Exposure Draft ED 3, *Measurements of Assets and Liabilities in Financial Statements*

Dear Sir/Madam:

On behalf of the over 180,000 members of The Institute of Internal Auditors (IIA), we are pleased to provide the attached comments on IFAC's IPSASB's Public Sector Conceptual Framework Exposure Draft ED 2, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* and ED 3, *Measurements of Assets and Liabilities in Financial Statements*. As the global standards setting body for the professional practice of internal auditing we appreciate the opportunity to provide comment on the framework that will impact internal auditing professionals world-wide.

Our comments represent the culmination of observations from a core team of auditing professionals from around the world who serve on The IIA's Public Sector Committee. These professionals consist of Certified Government Auditing Professionals (CGAP), Certified Internal Auditors (CIA), and Certified Public Accountants (CPA) who work within the public sector and provide a global perspective

We appreciate and applaud the IPSASB's efforts to serve the public interest by setting high-quality public sector accounting standards and establishing a Conceptual Framework for general purpose financial statements under the accrual basis of accounting.

In formulating our observations, we recognize that defining terms that have global acceptance is a difficult challenge. Although specific comments are provided in the attached document, the following summarizes our principal observations:

1. It is our assumption the framework's focus is on non-profit oriented entities/activities within the government; therefore, it is our collective assessment that the term "ownership" would not be well understood and should not be included in the framework.

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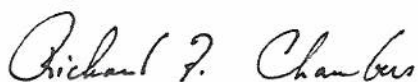
[www.globaliia.org](http://www.globaliia.org)

2. In an effort to ensure global acceptance of the framework, we recommend the concept of deferred inflows and outflows, that are not universally encountered in practice, be removed or explained in more detail.
3. We are in support of and in agreement with all the "Specific Matters for Comment" referenced in ED 3.

For points 1 and 2 above, we welcome an opportunity for further discussion to improve the framework.

Thank you again for the opportunity to provide comments. The IIA values our relationship with IFAC and the IPSASB and looks forward to our continued work together in fostering sound financial management in governments throughout the world.

Best regards,



Richard F. Chambers, CIA, CGAP, CCSA, CRMA  
President and Chief Executive Officer

**About The Institute of Internal Auditors**

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International *Standards* for the Professional Practice of Internal Auditing (*Standards*). These principles-based *Standards* are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 109 affiliates in 190 countries that serve members at the local level.



## **Appendix**

### **Observations from The Institute of Internal Auditors**

#### **Conceptual Framework Exposure Draft-2 (CF-ED2), Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements**

##### **Specific Matter for Comment 1**

###### **Do you agree with the definition of an asset? If not, how would you modify it?**

Yes, the definition is similar to those offered by the IASB, FASB and US GASB.

##### **Specific Matter for Comment 2**

###### **Do you agree with the definition of a liability? If not, how would you modify it?**

Recommend the definition be further defined to include the following:

1. Liabilities are amounts owed to others relating to loans, extensions of credit, and other obligations arising in the course of business.
2. Implicit to the notion of a liability is the idea of an “existing” obligation to pay or perform some duty.

###### **Do you agree with the definition of non-legal binding obligations? If not, how would you modify it?**

Recommend removing the term “Non-legal Binding Obligations”. The creation of expectations by government officials, past practices or specific current statements should not be enough to create an obligation and the difficulty in interpreting these items would make the definition difficult to implement. This could also potentially create a situation in which government officials override legislators' authorization of expenses and revenues.

##### **Specific Matter for Comment 3**

###### **Do you agree with the definition of revenue? If not, how would you modify it?**

Recommend changing the definition to “revenue is inflows during the current reporting period, which increase equity (net assets).” The concept of ownership contribution should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred inflows definition should also not be part of revenue definition as discussed in Comment 5 below.

##### **Specific Matter for Comment 4**

###### **Do you agree with the definition of expenses? If not, how would you modify it?**

Recommend changing the definition to “expenses are outflows during the current reporting period, which decrease equity (net assets).” The concept of ownership distributions should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred outflows definition should also not be part of revenue definition as discussed in Comment 5 below.

### **Specific Matter for Comment 5**

**(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?**

Since the terms “deferred inflows” and “deferred outflows” are not well understood or used in practice, especially considering the international diversity of how this concept is viewed, it would be best not to include these concepts and terms. Deferred inflows are similar to deferred revenue (liabilities waiting to be matched against expenses in the future) and deferred outflows are similar to deferred expenses (assets waiting to be matched against revenue in the future). It would be best to use universal language (i.e., terms, definitions) known to all accountants — Assets, Liabilities, Revenues, Expenses and Equity (net assets).

The purpose and usefulness of having Deferred Inflows and Outflows as elements should be more thoroughly discussed before inclusion in the framework.

### **Specific Matter for Comment 6**

**(a) Do you agree with the terms of net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**

The definition of net assets is clear but recommend the definition of net financial position be modified due to the considerations expressed in comment 5 above in reference to deferred outflows and inflows.

**(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why?**

It is our assumption this framework does not address government profit-oriented entities or activities, so the term “ownership” does not seem to belong in the framework. Governments do not typically raise capital through public offering of shares or other similar investment. Increases in capital come from taxation, transactions and donations, to list a few. Introducing ownership to the framework is addressing an atypical situation and would require significantly more discussion and elaboration than it currently does in the exposure draft. Governments generally have inflows of assets of two forms — one by increasing their liabilities and the other by relationships with society broadly speaking (tax levies, for example) that do not entail any obligations and, therefore, increase equity (net assets) directly.

### **Specific Matter for Comment 7**

**Do you agree with the discussion of recognition? If not, how would you modify it?**

The concept of government’s legal power of enforcement is an important basis for recognition in addition to transactions. We recommend modifying paragraph (item) 7.3 by adding the following sentence.

“Government legal power of enforcement (e.g., taxation) is also one of the primary bases for recognition and de-recognition of items as elements.”

**Conceptual Framework Exposure Draft-3 (CF-ED3), Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

**Specific Matter for Comment 1**

**Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting?**

Yes, assets and liabilities should be reported on the same basis where circumstances are similar and only be allowed to select different measurement bases where the economic circumstances justify a change.

**Specific Matter for Comment 2**

**Do you agree with the current value measurement bases for assets that have been identified in Section 3?**

Yes, the guidance given is very useful even though the selection of a measurement basis remains a matter of judgment in order to select the basis that most effectively meets the objectives of financial reporting and satisfies users' information needs.

**Specific Matters for Comment 3**

**Do you agree with the approaches proposed in Section 4 for application of:**

**(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions.(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets.**

Agree

**(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets.**

Agree

**Specific Matter for Comment 4**

**Do you agree with the proposed measurement bases for liabilities in Section 5?**

Agree





30 April 2013

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

Dear Ms Fox

**IPSASB Conceptual Framework Exposure Draft 2:  
Elements and Recognition in Financial Statements**

Please find attached comments from the Australasian Council of Auditors-General (ACAG) on the IPSASB Exposure Draft referred to above.

The views expressed in this submission represent those of the Australian members of ACAG. While all Australian members of ACAG hold a common view on some aspects of this Exposure Draft, there exist different views amongst the members in connection with the proposed definition of deferred inflows and deferred outflows as separate elements, and the proposed treatment of increases/decreases therein.

While the different views relate principally to Specific Matter for Comment 5 and have been outlined within that area, these differences also impact Specific Matters for Comment 3, 4 and 6. The comments set out in this submission which reflect the view of the majority of the Australian members of ACAG are titled 'Main view', with a 'Divergent view' within Specific Matter for Comment 5 reflecting the view of two members.

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

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Simon O'Neill', is written over a horizontal line.

Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

## Attachment

### Specific Matter for Comment 1

#### Do you agree with the definition of an asset? If not, how would you modify it?

ACAG suggests amending the definition of an asset for the use the term “future economic benefits” instead of “economic benefits” in order to be consistent with the IASB Conceptual Framework;

### Specific Matter for Comment 2

#### (a) Do you agree with the definition of a liability? If not, how would you modify it?

ACAG agrees with the definition of a liability.

However, ACAG does not agree with the view expressed in paragraph BC22 of the Basis for Conclusions that “distinguishing between conditional and unconditional obligations is not useful for the purpose of defining a liability because it is possible for conditional obligations to give rise to liabilities”. Unconditional stand-ready obligations (which are liabilities) and conditional obligations (which may be liabilities in certain situations) are useful concepts, at least as guidance in determining whether a liability exists. The IPSASB’s concern that obligations to stand ready to provide social benefits might be inappropriately recognised as liabilities in the statement of financial position is a recognition issue, which can then be addressed in the recognition section of the Framework (ideally) or at a standards level.

Similarly, ACAG does not agree with paragraph BC26 that it would not be appropriate to use the term “performance obligation” in the Framework. The concept of performance obligations is fundamental to the upcoming IFRS on revenue recognition and therefore should also be discussed by the IPSASB in the context of the definition of a liability.

#### (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

ACAG agrees with the description of non-legal binding obligations. We agree that liabilities can arise from non-legal binding obligations as explained in paragraph 3.10 of the Exposure Draft.

### Specific Matter for Comment 3

#### Do you agree with the definition of revenue? If not, how would you modify it?

##### Main view

Most Australian members of ACAG suggest amending the definition of revenue for the following:

- Exclude inflows that result from decreases in deferred inflows from the definition of revenue in accordance with the Alternative View of Prof. Mariano D’Amore. Please refer to our response to SMC 5(a) below.
- Modify the phrase ‘inflows during the current reporting period’ as inflows are generally associated with cash-based reporting. We recommend that the term ‘increases in economic resources or benefits’ replaces the term ‘inflows’ as this is consistent with IFRS terminology, and better reflects the concept of accrual accounting.



### ACAG view

In addition, paragraph 4.7 of the ED states that “the difference between revenue and expenses is the entity’s surplus or deficit for the period, which is the primary indicator of financial performance”. We are not sure whether this will be addressed in Phase 4 of the Framework on Presentation in General Purpose Financial Reports, but it should be made clear that surplus or deficit in the Exposure Draft is different from surplus or deficit in the existing standards which excludes items like revaluation surpluses/losses (i.e. items of other comprehensive income (OCI) under IFRSs). We believe that the IPSASB should discuss the concept of OCI items as part of the Framework (as is being proposed by the IASB in its Conceptual Framework project).

### **Specific Matter for Comment 4**

**Do you agree with the definition of expenses? If not, how would you modify it?**

#### Main view

Most Australian members of ACAG suggest amending the definition of expenses for the following:

- Exclude outflows that result from decreases in deferred outflows from the definition of expenses in accordance with the Alternative View of Prof. Mariano D’Amore. Please refer to our response to SMC 5(a) below.
- Consistently with the comment in SMC 3 above, replace the term ‘outflows’ with the term ‘decreases in economic resources or benefits’ as this is consistent with IFRS terminology, and better reflects the concept of accrual accounting.

### ACAG view

Please also refer to our comment in SMC 3 above on OCI items.

### **Specific Matter for Comment 5**

- (a) **Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?**

#### Main view

Most Australian members of ACAG support the decision to define deferred inflows and deferred outflows as elements. They agree with the rationale set out in paragraphs BC35 and BC40 of the Basis for Conclusions. However, they do not support the proposed treatment of increases/decreases in deferred inflows and deferred outflows because this substantially modifies the generally understood concepts of revenue and expenses as changes in net assets. They support the Alternative View of Prof. Mariano D’Amore that increases/decreases in deferred inflows and deferred outflows should be considered as separate elements from revenue and expenses.

#### Divergent view

Two Australian members of ACAG do not support the decision to define deferred inflows and deferred outflows as elements. They are not convinced by paragraphs BC40-43 of the Basis for Conclusions that there is a need for new elements in financial statements to deal with specific non-exchange transactions. A new element for a specific group of transactions is not required, when it can be addressed through the definitions and recognition criteria of other elements, e.g. revenue, liability. Users will be further confused when deferred inflows and deferred outflows, and net financial position are defined, recognised and measured separately

from existing elements. The Exposure Draft will lead to two measures of financial performance and two measures of financial position.

These two Australian members of ACAG support the Alternative View of Ms Jeanine Poggiolini. As outlined in paragraph AV8, Ms Poggiolini disagrees with the identification and recognition of separate elements for deferred inflows and outflows, and believes that these flows should be included in the definitions of revenues and expenses. As a consequence these members also do not support the need to separately define net financial position (refer SMC 6 below), as it would result in the same figure net assets under the approach outlined in paragraph AV8.

**(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:**

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?**
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?**

Main view

- (i) Most Australian members of ACAG agree with the decision to restrict the definitions to non-exchange transactions. They believe that the prevalence of non-exchange transactions in the public sector is a key distinguishing factor from the private sector and is a sufficiently strong rationale for creating the concepts of deferred inflows and deferred outflows (and hence not aligning with the IASB Conceptual Framework).
- (ii) Most Australian members of ACAG suggest amending the definition of deferred inflows and deferred outflows for the following:
  - Reference to “a specified future reporting period” should be changed to “a future reporting period”. These members of ACAG believe that limiting deferred inflows and deferred outflows to situations where the future period over which the resources can be used is specified (specifically documented) in an agreement is too restrictive and would not achieve the objective that revenue and expenses (and increases/decreases in deferred inflows and deferred outflows, if these are defined as separate elements as suggested in our response to SMC 5(a) above) are flows that relate to the current period. For example:
    - where an entity receives a grant;
    - the grant agreement states that the grant will fund a particular research project but does not specify a period; and
    - the research project will only be performed in the future,
 it would appear to be appropriate to defer the revenue.
  - Should the IPSASB decide to adopt a restrictive approach and continue to require a specified future reporting period:
    - the definition of “deferred inflow” should refer to “use in a future reporting period specified by an external party”; and
    - The definition of “deferred outflow” should refer to “use by that other entity or party in a future reporting period specified by the reporting entity”.



### **Specific Matter for Comment 6**

- (a) **Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**

Main view

Most Australian members of ACAG agree with the terms net assets and net financial position and the definitions.

- (b) **Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?**

ACAG agrees with the decision to define ownership contributions and ownership distributions as elements.

- (c) **If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?**

ACAG agrees with the definitions of ownership contributions and ownership distributions.

- (d) **Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?**

ACAG believes that the term ownership interests should be defined as it has economic substance, being ownership claims on the public sector entity's assets. This would ensure users are aware of any of the Government's net assets which may be attributable to outside third parties.

### **Specific Matter for Comment 7**

**Do you agree with the discussion on recognition? If not, how would you modify it?**

ACAG agrees that recognition is a distinct stage in the accounting process so that the definitions of the elements do not include recognition criteria. However, we do not agree with the fact that, although there is a discussion of existence uncertainty and measurement uncertainty, there is an absence of any explicit recognition criteria or principles in the draft Framework. We believe this section of the Framework could be improved by:

- The inclusion of specific recognition criteria for elements, to be applied once all available evidence has been assessed in determining whether an element exists. Elements should be recognised where:
  - In the entity's judgement, the element exists; and
  - The cost or value of the element can be reliably measured.
- As mentioned in our response to SMC 2(a) above, it would be useful if recognition criteria or principles for social benefits obligations as liabilities in the statement of financial position are addressed in the Framework.

### **Other Matters**

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

In order to assist preparers, auditors and end-users, ACAG suggests that further discussion, examples and/or guidance be included in the Conceptual Framework on each of the elements of the financial statements.

ACAG supports the IPSASB's strategy of maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector. The IPSASB should monitor closely the developments in the IASB Conceptual Framework project to see if these can be applied or adapted in the IPSASB project. We note that various bodies such as the European Financial Reporting Advisory Group (EFRAG) are actively contributing on the subject by issuing bulletins on various topics. Therefore, we believe that the IPSASB should not finalise its Framework until the IASB Conceptual Framework project has been completed.

## **IPSAS ED 2 Conceptual Framework ...: Elements and Recognition in Financial Statements**

Comments by Daniëlle Vermaelen and Johan Christiaens prepared for IBR-IRE

18<sup>th</sup> March 2013

### Introduction

The following comments and suggestions are meant to improve if possible IPSAS ED 2. It is not the intention to provide a complete set of remarks based on a thorough examination of this IPSAS ED 2. Probably there are still other suggestions or comments possible.

### General remarks

- The conceptual framework should be established based on user-need accounting research. The current ED's are set up in an imposing way, without preceding user orientedness.
- The ED lacks a number of examples, which can improve their readability and understandability.

### Specific remarks

#### **Specific matter for Comment 1: definition of an asset**

The definition included in 2.1 on p. 10 can seriously be criticized.

The former definition by IPSAS (IPSAS 2001, IPSAS standard 17) started from the IAS/IFRS definition but replaces the term "enterprise" by "entity" and adds the term "service potential", so that the definition is broadened: "*Assets are resources, (2) controlled by an entity, (3) as a result of past events and (4) from which future economic benefits or service potential are expected to flow to the entity.*"(numbers and italics added)

Referring to Christiaens, Rommel, Barton and Everaert (2012) and see also Barton 2004, Christiaens 2004, the economic benefits or service potential of many governmental capital goods **do NOT flow to the entity**, but to the citizens and users. Examples are monuments, landscapes, public roads, heritage assets, collections, etc. Therefore, those governmental capital goods cannot be recognized as being assets. They should be reported off balance sheet.

Apparently, the current ED 2 avoids the problem of to where the benefits and service potential flows, but it should be made clear that those benefits need to flow to the controlling entity in order to recognize capital goods as assets!

### **Specific matter for Comment 2: definition of a liability**

- (a) No further remarks
- (b) The approach and definition of the so-called non-legal binding obligations is very complex and less transparent. This section needs to be clarified at least by including a few practical examples

### **Specific matter for Comment 3: definition of revenue**

The definition disclosed in section 4.1 on p. 15 is not expressed in terms of a principle or a reasoning , it is just the increase of the net assets of an entity with 2 exceptions.

Net assets can change in terms of capital movements (e.g. long term financing by donors, merger with another government, long term financing by IMF, funding by another government, etc. ) next to changes caused by the operational activities resulting in revenues or expenses. It is the aim of a income statement (P/L account) to provide the stakeholder with a detailed overview of the different revenues and expenses explaining the operational movement of the net assets.

In other words revenues and expenses should be defined as the result of the operational changes in the net assets, not vice versa.

### **Specific matter for Comment 4: definition of expenses**

See revenues

### **Specific matter for Comment 5: definition of deferred inflows and deferred outflows**

- (a) The definition of **deferred inflows** is indeed necessary to enable the accounting for e.g. received funds that will be spend by the government in later periods. In the accounting regulations of the **American GASB** rules this is called net assets of the kind "*Permanently restricted funds*" or "*Temporarily restricted funds*". Hence, these means of financing are "earmarked" and should not be expensed for other kinds of purposes than the purposes foreseen in the funding contract. The IPSASB should not develop complex terms to capture this kind of governemtal activity in the light of IFRS, IPSASB could analyse more thoroughly the American GASB rules.  
Regarding **deferred outflows** the exposure draft an important question still remains: let us take the same example as described in 5.4 on p. 16: a multi-year grant is transferred by an entity with the stipulation by the transferor that it is to be used over one or more future reporting periods: in case this amount will be accounted for as an

immediate decrease of the transferor's net assets preferably disclosed as a separate element, the accounting policy can be approved. However, deferred outflows should never be disclosed positively on the asset side of the balance sheet! For a period in the nineties in Belgium municipalities had to account for deferred outflows as assets, meanwhile this incorrect approach has been abandoned.

The approach of deferred inflows and deferred outflows should also keep in mind that governments can acquired funds on behalf of somebody else like a "legacy" or acquired as an agent just for logistics and distributions: e.g. nutrition aid in Africa: certain governments and non-profit organisations are asked to take care of the distribution of food, health care instruments, etc. for poor people. The organisations acquire therefore gifts and donations without any economic reason but just for cultural and human reasons. They become to some extent 'proprietor' of the goods and the resources, but only temporarily and somehow in terms of an agent who is supposed to take care of the distribution and the logistics.

- (b) (i) It is obvious that governments are used to play an important role in the so-called deferred inflows and deferred outflows and this mostly in the perspective of non-exchange transactions. The ED can restrict those definitions to non-exchange transactions, because for exchange transactions the accrual adjustments have already been foreseen by taking over the IAS/IFRS principles where exchange transactions with deferred inflows are known
- (ii) See American GASB approach above

### **Specific matter for Comment 6**

- (a) No remarks
- (b) Ownership contributions and ownership distributions: the decision to define these terms can be questioned: to establish or to increase or decrease an interest in the net assets of a government appears to be a contradiction: in the public sector there are no shares, nor stockholders; the net assets represent long term financing without any rights for shareholders  
Of course it might be possible that certain governmental activities are organised by a corporate organisations having shares, e.g. a bank owned by the central government, a railroad company of which the government has the majority of the shares, etc. However, such corporations are no governments and follow business accounting standards such as IFRS
- (c) N/A
- (d) N/A

### **Specific matter for Comment 7: discussion on recognition**



This section should be examined scientifically by specialists in terms of “accounting theory”.

### References

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- Barton, A. D. (2004), How to profit from defence: a study in the misapplication of business accounting to the public sector in Australia, *Financial Accountability & Management*, 20(3), pp. 281-304.
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INTERNATIONAL MONETARY FUND  
WASHINGTON, D.C. 20431

Facsimile Number  
1-202-623-4661

April 25, 2013

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

Dear Ms. Fox:

**Comments on Exposure Draft 2 on Conceptual Framework: Elements and Recognition in Financial Statements**

We welcome the publication of this exposure draft (ED) for comments. The ED discusses issues that are of fundamental importance to public sector financial reporting and should help promote debate on an appropriate conceptual framework for International Public Sector Accounting Standards (IPSAS). We also welcome the confirmation in the ED that the IPSASB is committed to minimizing divergence from statistical reporting guidelines where appropriate and that the conceptual framework project takes into account these guidelines to increase convergence.

Our comments on specific issues are set out below. A common theme of these comments is that the ED would benefit from more in-depth discussion on important and complex issues. The discussion should include appropriate examples of the application of the concepts and principles proposed. Where appropriate, the discussion should also be explicit about the implications of the concepts proposed, particularly where these involve any change from current principles, standards, and practice.

**Definition of liabilities**

A liability is defined as “a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.” The ED also notes that liabilities include non-legal binding obligations when: (a) the government entity has indicated to other parties that it will accept certain responsibilities; (b) as a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and (c) the entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

The ED should clarify how the proposed definition of liabilities, and in particular the reference to non-legally binding obligations, relates to concepts of liabilities in IPSAS 1 (which does not explicitly mention non-legally binding obligations) and IPSAS 19 (which does) and whether IPSASB considers this to be a change or merely a reiteration of existing concepts, principles and practices.

We do understand the rationale for including non-legally binding obligations in the definition of liabilities under certain circumstances. However, we would recommend being more circumscribed and precise as to what those circumstances are, i.e., the extent of and limitations to the applicability of the principle of liabilities arising from non-legal obligations. To elaborate on this last point, the discussion on non-legally binding obligations in paragraphs 3.11 to 3.12 could in particular be clarified by:

- discussing in more detail the possible “natures” of these obligations, and the consequences on the point at which such obligations should be recognized.<sup>1</sup> In particular, a discussion of the differences between obligations deriving from exchange and non-exchange transactions would be necessary; and
- providing a clearer<sup>2</sup> and more comprehensive set of indicators examples, though recognizing that it will not be possible (or desirable) to anticipate every eventuality.

In addition, terms such as “little or no realistic alternative,” or “valid expectation,” “certain responsibilities” are not defined or explained and would require interpretations to be exercised by the preparers of the financial statements, or by auditors. We are concerned that this could present difficulties, particularly in countries with capacity constraints. This could also lead to a lack of comparability between countries. The ED should therefore discuss these terms in more depth and provide examples to facilitate understanding.

### **Financial performance of governments**

We would suggest that the ED discuss the concept of financial performance of the public sector in a broader context. The ED does not discuss the important issues of what constitutes financial performance in the public sector and how it should be measured or assessed, other than to simply note that the difference between revenues and expenses is the entity’s surplus or deficit for the period and this is the primary indicator of financial performance. This would

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<sup>1</sup> The ED states that “the point at which a non-legal binding obligation gives rise to a present obligation critically depends on the nature of the obligation.”

<sup>2</sup> For example, one indicator is “the ability of the entity to modify or change the obligation before it crystallizes.” The illustration given is that the announcement of a policy does not give rise to a liability as this policy can be modified before being implemented. It is noted that “similarly, if an obligation is contingent on future events occurring there may be discretion to avoid an outflow of service potential or economic benefits before those events occur.” Though there seem to be no similarity between those two situations: in the second one, the non-recognition of the liability is not linked to the ability of the entity to modify or change the obligation, but to the occurrence of future events that may or may not be under the control of the entity.

appear to be a somewhat narrow and, in certain circumstances, inappropriate view of public sector financial performance. For example, the ED's exclusive focus on surplus or deficit would imply that if a government, at a consolidated level, had a surplus in one year, followed by a smaller surplus or a deficit in the next year, the financial performance of the government in the second year would be regarded as worse than that of the first year. However, the smaller surplus or the deficit may be caused by lower revenues and higher expenses (e.g., unemployment benefits) due to factors outside the control of the government in a period of economic downturn and not due to worse performance by the government. The lower surplus or the deficit could also be the result of deliberate policies and actions by the government to stimulate the economy in the midst of a recession. Under such circumstances, it would be misleading to conclude that the government's financial performance has deteriorated, particularly if there are indications that the government's policies have led to better economic outcomes such as higher growth and/or lower unemployment. We therefore believe that conceptual framework should avoid taking an overly technical and narrow view of public sector financial performance and acknowledge that a government's financial performance has to be viewed in a broader context than that of a private sector entity and provide guidance on issues in addition to the surplus or deficit that should be taken into account in assessing such performance.

### **Net assets of government**

The ED defines net assets as the difference between assets and liabilities, but does not discuss what this indicator means for a government at either the consolidated or the entity level. The ED could usefully discuss, particularly in the context of the elements and recognition criteria proposed in the ED, whether or not net assets of governments should be viewed as an indicator of a government's financial strength, solvency, or fiscal sustainability or a combination thereof. The ED could also discuss any limitations that may apply in using net assets as an indicator for such analytical purposes.

### **Deferred inflows and outflows**

While we appreciate the conceptual arguments for distinguishing deferred inflows and outflows from other transactions, we are concerned that the proposed introduction of these new elements could increase the complexity of financial statements to such an extent as to outweigh the potential benefits.

In this context we have some sympathy with the alternative view included in the ED about the risks of moving away from the commonly understood concept that revenues increase and expenses decrease net assets.

We are also concerned that the distinction between net assets and net financial position would be difficult for users to understand. In particular, users may be confused by a balance sheet that shows a positive net asset but a negative net financial position or vice versa. For example, BC 47 states "...negative net financial position indicates that insufficient revenues have been generated at the reporting date to meet the expenses of the entity in the provision of services and should raise the question about how this shortfall will be addressed in future

periods, whether from increased revenue, a reduction in expenses, or a combination of both.” The ED should discuss how these questions might be modified if the balance sheet simultaneously showed a positive net assets position and a negative net financial position. More generally, the ED could explain how to interpret balance sheets with different combinations of net asset and net financial position and changes to such combinations over time.

We also note that the proposed term “net financial position” is very similar to the term “net financial worth” used in *GFSM 2001*, although they mean very different things. This could be a source of additional confusion among users of financial and statistical reports. The ED should also discuss more fully why the concepts of deferred inflows and outflows are restricted to non-exchange transactions.

### **Recognition of elements**

The ED notes that “... if it is determined that an element exists, uncertainty about the flows of service potential or economic benefits related to that element are taken into account in the measurement of that element.” We would suggest that this concept should be explained more fully. In particular, the ED should clarify if this represents a change from the existing practice under which, for example, a provision is recognized when, among other things, it is considered probable that an outflow of resources will be required to settle the obligation. Our understanding is that under this principle where the probability of an outflow is considered less than 50 percent, a provision is not recognized. The ED should clarify whether the conceptual framework is proposing a change whereby these items that are currently not recognized, would be recognized in the future and the probability of the outflow would be taken into account in the measurement of the provision.

We hope that you find these comments useful and we look forward to continuing this important dialogue.

Sincerely yours,



Richard Hughes  
Division Chief  
Public Financial Management Division  
Fiscal Affairs Department

cc: Ms. Moretti, Messrs. Khan, Mueller, Olden, Pessoa, van Eden



EKONOMISTYRNINGSVERKET

Date	Your date
April, 29, 2013	
Reference number	Your reference number
3.4-448/2013	
Our reference	
Maria Olsson	

## **Comments on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Exposure Draft 2:**

### **Elements and Recognition in Financial Statements**

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to respond to the International Public Sector Accounting Standards Board's Exposure Draft 2 entitled Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government

#### **Specific Matter for Comment 1**

*Do you agree with the definition of an asset?*

We agree with the definition of an asset.

#### **Specific Matter for Comment 2**

*Do you agree with the definition of a liability?*

We agree with the definition of a liability. However the terms legal and non-legal obligations need to be interpreted in the context of the public sector. The government has the sovereign power to repudiate obligations and can also regulate a subordinate entity's activity. We believe that if the government regulates a future activity to a subordinate entity it also has a responsibility for their finance (eg. by future taxes). If standards don't consider fundamental characteristic circumstances as the power to repudiate obligations within the public sector many future activities could be an obligation and meet the definition of a liability, despite the government being able to avoid settling the obligation.

#### **Specific Matter for Comment 3**

*Do you agree with the definition of revenue?*



EKONOMISTYRNINGSVERKET

We generally agree with the definition of revenue. However we think the terms exchange versus non-exchange transaction should be defined in the Conceptual Framework as the latter is a specific and important accounting term for the public sector.

#### **Specific Matter for Comment 4**

*Do you agree with the definitions of expenses?*

We agree with the definition of expenses.

#### **Specific Matter for Comment 5**

*a) Do you agree with the decision to define deferred inflows and deferred outflows as elements?*

We agree with the decision to define deferred inflows and deferred outflows as elements. We see advantages with the proposed solution but we believe, in order to achieve a comparable and harmonized financial reporting, there is a need to clarify when deferred outflows of resources and deferred inflows of resources should be recognized and how they should be measured. We also note that there might be difficulties with demarcations with items that consist of both exchange and non-exchange elements.

*b) Do you agree with the decision to restrict those definitions to non-exchange transactions?*

We agree with the decision to restrict those definitions to non-exchange transactions.

#### **Specific Matter for Comment 6**

*a) Do you agree with the terms net assets and net financial position and the definitions?*

We do not see the need for the distinction between net assets and net financial position. We believe this information, when it is important, can in some cases be obvious from the information in the statement of financial position or otherwise be shown in note disclosures.

*b) Do you agree with the decision to define ownership contribution and ownership distributions as elements?*

We agree with the decision to define ownership contribution and ownership distributions as elements. However we believe another term than “owner” should be used within the public sector.

*c) Do you agree with the definitions of ownership contributions and ownership distributions?*





EKONOMISTYRNINGSVERKET

We agree. We find it very important to give a definition and clarify whether a transaction is an ownership contribution or an ownership distribution in order to obtain consistency among the reporting entities.

*d) Ownership interest has not been defined in the Conceptual Framework. Do you think they should be?*

We believe that ownership interest should be defined in the conceptual framework.

### **Specific Matter for Comment 7**

*Do you agree with the discussion on recognition?*

We agree with the discussion on recognition. However we believe that the terms exchange revenue and non-exchange revenue should be defined in the conceptual framework.

### **Concluding remarks**

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

Senior Advisors Maria Olsson, Anne-Marie Ögren, Curt Johansson and Ingemar Härneskog have prepared the comments given in this report.

Yours sincerely,

Pia Heyman

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IPSASB Conceptual Framework Exposure Draft Phase 2 —  
*Elements and Recognition in Financial Statements*

# **response to exposure draft**

30 April 2013

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 130430 SC0195

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
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CANADA  
Submitted electronically

April 2013

Dear Stephenie Fox

**IPSASB Conceptual Framework Exposure Draft Phase 2 — *Elements and Recognition in Financial Statements***

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comment**

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs. A key element of this is the development of a public sector Conceptual Framework, which will aid both IFRS converged development and freestanding development of standards on public sector matters.

**Concern over inclusion of deferred flows as Elements**

CIPFA disagrees with the proposal that deferred inflows and deferred outflows should be included in the list of Elements. Especially given the proposal that these should be used to calculate a measure of financial position, and should be a modification of the measure of position provided by net assets.

Our principal concern is that this places too much emphasis of deferral issues.

We also consider that it overcomplicates the presentation of the entity's position, making the financial statements less readable and less understandable. A further reduction in clarity occurs when the consequences for the revenue and expenses are considered.

We commented on deferrals in our response to the IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* which was issued in December 2010. In that response we explained that deferral information may often be relevant information, which should be brought to the attention of readers of financial reports, perhaps through narrative reporting. We did not consider such deferrals to be elements of financial statements applicable in an international context. CIPFA's position is essentially unchanged on this matter.

We note that the Exposure Draft reduces the potential scope of deferrals by requiring that they arise from non-exchange transactions. This might be seen as preserving the IPSASB Conceptual Framework's alignment with the asset and liability and revenue and expenses position arising under the IASB framework. However, while we agree that non-exchange transactions are a distinctive feature of the public sector, the ED does not provide a rationale to explain why it is important that additional accounting should apply for these

items, or indeed, if such additional reporting is helpful, why it should not apply more widely to exchange transactions.

The ED states at BC 40 that "Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes." While we would agree that this information can be useful, and may be interesting to some stakeholders in some jurisdictions, the proposals seem to make this information the primary feature of the statement of position, elevating certain types of accountability above reporting on economic substance. Inasmuch as there is a requirement for additional explanation, in our view this would be best satisfied through additional disclosure.

Some may consider that the economic position arising under current standards and consistent with that set out under the current definitions of assets and liabilities is not the most faithful or useful representation. We have some sympathy for this viewpoint, but inasmuch as it might be appropriate to develop a revised statement of position incorporating deferrals adjustment, we suggest this would need to be done carefully and with full consultation on this specific issue. We would not expect this to require a definition of deferrals as specific element: this could be progressed by reference to existing elements grounded in control.

### **Response to specific questions**

Comments on the specific matters for comment are provided in the attached Annex A.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

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## ANNEX A

### Specific Matters for Comment

#### Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

CIPFA agrees with the proposed definition of an asset, although we would note that the current drafting at 2.1 repeats detail which is (necessarily) included in the definition of a resource at 2.2. A possible redraft is attached at ANNEX B.

As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.

#### Specific Matter for Comment 2

(a) Do you agree with the definition of a liability?  
If not, how would you modify it?

(b) Do you agree with the description of non-legal binding obligations?  
If not, how would you modify it?

CIPFA agrees with the proposed definition of a liability.

As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.

#### Specific Matter for Comment 3

Do you agree with the definition of revenue?  
If not, how would you modify it?

In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.

In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of revenue could be used. For example

“Inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions”.

#### **Specific Matter for Comment 4**

Do you agree with the definition of expenses?  
If not, how would you modify it?

In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.

In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of expenses could be used. For example

"Outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions".

#### **Specific Matter for Comment 5**

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?

(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

(a) As explained in our covering letter CIPFA disagrees with the proposal to define deferred inflows and deferred outflows as elements.

Our disagreement reflects concerns that

- inclusion as elements over emphasises the importance of information on deferrals; and
- the proposed effects on presentation will reduce the readability and understandability of the financial statements.

CIPFA also considers that if IPSASB wishes to develop reporting on deferred flows this could be done at standards level and would be better articulated in terms of the other elements

### Specific Matter for Comment 6

(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

(a) CIPFA agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained in our response to SMC 5 and elsewhere we do not consider that deferred inflows and outflows should be separate elements.

Should the Board accept this view, there would be no need to separately define another measure of financial position.

(b) CIPFA is content with the decision to define ownership contributions and ownership distributions as elements.

(c) CIPFA agrees with the proposed definitions of ownership contributions and ownership distributions.

(d) CIPFA is content that it is not necessary to define ownership interests in the conceptual framework.

### Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

CIPFA agrees with the proposed recognition criteria and their relationship to disclosures.

## ANNEX B

### Drafting Suggestion

2.1 An asset is a resource, ~~with the ability to provide an inflow of service potential or economic benefits~~ that an entity presently controls, and which arises from a past event.

### A Resource

2.2 A resource is an item with the ability to provide an inflow of service potential or economic benefits.

~~2.3 That resource must be controlled by the entity (see paragraph 2.6.)~~ Physical form is not a necessary condition of ~~an asset~~ **a resource**. The benefits can arise directly from the resource itself or from the rights to the resource. Some resources embody an entity's rights to a variety of benefits including, for example, the right to:

- (a) Use the resource to provide services;
- (b) Use an external party's resources to provide services, for example, leases;
- (c) Convert the resource into cash through its disposal;
- (d) Benefit from the resource's appreciation in value; and
- (e) A stream of cash flows.



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April 30, 2013

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario  
M5V 3H2

Dear Sir/Madam:

**Re: Conceptual Framework Exposure Draft 2 – Elements and Recognition in Financial Statements**

Thank you for the opportunity to comment on the IPSASB Conceptual Framework.

The Province of Manitoba does not support *Exposure Draft 2 – Elements and Recognition in Financial Statements*. The Province does agree with most aspects of IPSASB's conceptual framework; however we strongly disagree with the definition of revenue and expenses.

The ED defines revenue and expenses to include all increases and decreases in net assets other than ownership contributions, ownership distributions, deferred inflows, and deferred outflows. As such, revenue and expenses would include increases and decreases in net assets that arise from exchange and non-exchange transactions, other events such as price changes, the consumption of assets through depreciation and erosion of service potential, and unrealized increases and decreases in the value of assets and/or liabilities.

*ED 3 – Measurement of Assets and Liabilities in Financial Statements* lacks specific criteria for determining the appropriate measurement basis to apply for a specific situation. The Province feels that it is likely that future IPSAS will recommend or permit the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards. Under IPSASB's conceptual framework unrealized gains and losses would be included as revenue and expenses thereby affecting the net results from operations for the accounting period.

The introduction to IPSASB's conceptual framework was finalized in January 2013. IPSASB has identified the objectives of financial reporting by public sector entities to be providing information that is useful to the users of financial statements for accountability and decision making purposes. As part of accountability, governments and other public sector entities prepare, approve and make publicly available an annual budget. Financial statements provide information to users in assessing the extent to which the financial results has met its budget objectives.

If the EDs are approved as currently written it will become increasingly difficult for users to understand and compare the reported results in the financial statements against voted budgets which are prepared on a different basis from the financial statements. Summary budgets for most senior Canadian governments are aligned with the basis upon which financial reports are prepared. The Province is concerned with the potential erosion to transparency and accountability in public sector reporting when information is not presented in a clear and understandable way to the general public and their elected representatives.

The difficulty to budget for future unrealized gains and losses makes the IPSASB's proposed model for financial statements to be challenging at best, and likely to create further misalignment between fiscal accountability and financial reporting frameworks.

We would like to again thank IPSASB for the opportunity to comment on this CP.

Yours truly,

"original signed by"

Betty-Anne Pratt, CA  
Provincial Comptroller  
Province of Manitoba



## **Specific Matters for Comment**

### ***Specific Matter for Comment 1 - Do you agree with the definition of an asset? If not, how would you modify it?***

The Province agrees that assets are inflows of either service potential or economic benefits that an entity controls, and which arose from a past event. The Province especially agrees that the entity must have control of the resource at the reporting date. Control of the resource entails the ability to use the assets benefits but also includes the ability to direct other parties on the nature and manner of use of the benefits.

### ***Specific Matter for Comment 2***

#### ***(a) Do you agree with the definition of a liability? If not, how would you modify it?***

The Province agrees with the definition of a liability. A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.

#### ***(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?***

The Province agrees with the description of non-legal binding obligations.

### ***Specific Matter for Comment 3 - Do you agree with the definition of revenue? If not, how would you modify it?***

The Province does not agree with the definition of revenue. Revenues should not include unrealized gains on the value of assets and liabilities. Unrealized gains should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a separate statement.

### ***Specific Matter for Comment 4 - Do you agree with the definition of expenses? If not, how would you modify it?***

The Province does not agree with the definition of expenses. Expenses should not include unrealized losses on the value of assets and liabilities. Unrealized losses should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a separate statement.

### ***Specific Matter for Comment 5***

#### ***(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?***

The Province agrees with the decision to define deferred inflows and deferred outflows as elements. Many inflows or outflows from non-exchange transactions relate to future periods. These inflows and outflows should be deferred to the appropriate period.

#### ***(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:***

## Specific Matters for Comment

***(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?***

The Province agrees that deferred inflows and outflows should be restricted to non-exchange transactions.

***(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?***

The Province agrees with the definition of deferred inflows and deferred outflows. If an inflow or outflow from non-exchange transactions do not relate to future periods then they are revenue or expenses of the current period.

### ***Specific Matter for Comment 6***

***(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?***

The Province agrees with the terms of net assets and net financial position. Net assets is the difference between assets and liabilities. Net financial position is the net assets plus the deferred outflows less the deferred inflows.

The Province recommends that before arriving to the net asset position, financial statements should present a net debt or net asset position. The net debt position would present the financial assets less all liabilities. Non-financial assets would then be added to the net debt position to arrive at the net assets.

***(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?***

The Province disagrees with the IPSASB's decision to include ownership contributions and ownership distributions as elements. The inclusion of ownership contributions and ownership distributions is inappropriate to the public sector and at best unnecessary. Most public sector entities in Canada are corporations without share capital and have no ownership interests. Transfers from governments to public sector entities are not contributions. They are revenue if the transfer relates to the current period or a deferred inflow if the economic benefits and service potential relates to future periods.

***(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?***

The Province disagrees with IPSASB's decision to include ownership contributions and ownership distributions as elements.

***(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?***

It is unnecessary to define ownership interest in the public sector environment.

## **Specific Matters for Comment**

### ***Specific Matter for Comment 7 - Do you agree with the discussion on recognition? If not, how would you modify it?***

The Province agrees with the discussion on recognition. Recognition involves an assessment of existence uncertainty and measurement uncertainty. Determining whether the definition of an element has been satisfied requires professional judgment. Transactions are the most common basis for recognizing and derecognizing items as elements although the occurrence of a transaction is not necessary for an element to exist.

In order to recognize an element it is necessary to measure the element by attaching a monetary value. The use of estimates is an essential part of measuring elements. The selection of an appropriate measurement basis is discussed in *ED 3 – Measurement of Assets and Liabilities in Financial Statements*.



April 30, 2013

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By electronic submission

Dear Mr. Bergmann,

**Re.: Conceptual Framework Exposure Draft 2: Conceptual Framework  
for General Purpose Financial Reporting by Public Sector Entities:  
Elements and Recognition in Financial Statements**

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Conceptual Framework Exposure Draft 2: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (hereinafter referred to as "the CF").

**General Comments**

We remain unconvinced that there is any real justification for there to be differences between the private and public sectors in respect of this Phase of the CF. Therefore, whilst we generally believe the proposals in the ED are not problematical from a technical standpoint, we would like to re-affirm our previously stated views as to need to ensure appropriate liaison with IASB. Notwithstanding the IPSASB's intention that the CF Project is not a convergence project, we do not believe the IPSASB should finalise its CF in its entirety without having achieved an appropriate degree of consensus with the IASB on key aspects. At the time the IPSASB commenced its work the IASB Project had been deferred. At the present time, however, the IASB has reactivated its own project and accelerated its work in this area, and we firmly

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



**Page 2 of 6** to the comment letter to the IPSASB dated April 30, 2013

believe that the IPSASB should consider delaying finalization of the CF to this end.

In this context, we would challenge the underlying presumption that deferred items and contributions from and distributions to owners represent public sector specific matters justifying different treatment from the private sector. We explain our reasoning and views in more detail subsequently in this letter where we have responded to the individual specific matters for comment (SMCs).

We further believe that the IPSASB needs to clarify to its constituents how this Phase of the CF will interact with the other Phases of the CF and, in particular, with Phase 4 "Presentation", which will deal with presentation techniques including decisions on information selection within a report. We note that the IASB decided to abandon a phased approach in taking its own work forward. Indeed allowing the necessary time to deal with the interactions of the four Phases would also provide an opportunity for further liaison with the IASB as suggested above.

## **Responses to SMCs**

### **Specific Matter for Comment 1:**

*Do you agree with the definition of an asset? If not, how would you modify it?*

In our opinion, clarification as to the term "ability" is needed. Using the term "with the ability to provide an inflow of service potential or economic benefits...." will mean that where there is no "ability" there is no asset. We believe there is a need for further guidance of the practical implications as to what "ability" shall constitute in this context. For example, whilst an item may have an inherent ability to provide an inflow of service potential or economic benefits, that same ability may be severely restricted or even negated by law or regulation. Other considerations such as the probability that the ability will actually result in an inflow may also need to be considered. In our view, the latter may be best included as a recognition criterion (see our response to SMC 7).

In our previous letter referred to above, we had also commented that specifying access rights, including the right to restrict or deny others' access rights is overly restrictive. We continue to hold this view. In this context, and on the assumption that the IPSASB intends to retain this material, we believe the last sentence of paragraph 2.7 needs further clarification. In our opinion, it is possible that access rights to a particular resource could fall under the discretion of a different public sector entity (e.g. by means of bylaws etc. determined by another entity) than the entity seeking to account for the asset. As a result we





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suggest – as a minimum – the wording of the last sentence of paragraph 2.7 be amended to "...it may be questionable...".

**Specific Matter for Comment 2:**

- a. Do you agree with the definition of a liability? If not, how would you modify it?*

We do not have any technical objections to the proposed definition of a liability, however, as already mentioned in this and previous letters we urge the IPSASB to liaise with the IASB to ensure that differences between their respective frameworks are minimized in that they are limited to public sector specifics. With this one remark, we generally support the proposed definition.

- b. Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

The description of non-legal binding obligations does not sufficiently differentiate the factors that would be considered fundamental in determining the stage at which a liability shall be said to exist, i.e., at which point in time the entity has little realistic alternative to avoid settlement, and thus the obligation has to be classified as binding the entity (in a non-legal sense). A discussion of what the terms "little" and "realistic" are intended to mean in this context would be helpful.

We find the indicators listed in paragraph 3.12 unhelpful, and in the case of (c), the last sentence is misleading. If the definition of a liability is met, the absence of a budgetary provision can never be a reason for not meeting the definition of a liability. Using the word "may" implies that sometimes this could be the case, and using the word "recognition" misses the issue – the guidance is about definition. On balance we suggest this last sentence be deleted.

**Specific Matter for Comment Nos. 3 and 4:**

*Do you agree with the definition of revenue? If not, how would you modify it? Do you agree with the definition of expenses? If not, how would you modify it?*

We have not identified any major issues from a technical standpoint.

**Specific Matter for Comment 5:**

*Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*

Whilst we certainly have sympathy with the aim underlying the IPSASB's proposals, we are neither convinced that such items should be classified as





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elements within the CF, nor that they should necessarily be restricted to non-exchange transactions as the IPSASB contends in BC45.

As the IPSASB rightly points out, there is considerable potential for misuse. We share the IPSASB's reservations and agree that limiting the usage of such items would need to be determined at standard setting level. Indeed, the variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. In our view, such items should form special sub categories of assets or liabilities, provided this is justified by the terms governing the individual transaction. Changes to the material in the sections dealing with assets and liabilities would be needed to explain the nature of items. For example the CF should explain how control might be determined (i.e., when funds that have advanced for a specific purpose are subject to repayment unless the terms of their advance are met in a specified timeframe). We also note that the IPSASB has not justified why it believes that excluding the elements deferred inflows and outflows from a computation of net assets but reflected in the computation of net financial position would be helpful. Nor has the Board explained the purpose these respective terms serve (currently BC47 only explains the term "net financial position").

*If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:*

- i. Decision to restrict those definitions to non-exchange transactions? If not, why not?*

No, as explained above, we do not support either the decision to define deferred inflows and deferred outflows nor the proposed restriction to only non-exchange transactions within the public sector.

- ii. Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

As explained above, we believe that deferred items should not be classified as elements. The variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. Firm requirements will therefore have to be established at standard setting level.



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**Specific Matter for Comment 6:**

- a. Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*
- b. We refer to our comments above. Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

Regarding the proposal to define ownership contributions and ownership distributions as elements, we have similar views to those expressed in response to SMC 5. We do, however, share the concerns raised in the BC49 regarding the concept of ownership and agree with the Board's acknowledgement in BC 50 that in certain circumstances part of the net financial position. Again this will depend on specific criteria, including the formal entity structure, and thus we suggest this also needs to be addressed at the level of standard setting rather than a conceptual framework level.

- c. If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*

We refer to our response to b.

- d. Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

We refer to our comments above. We believe there is merit in subcategorizing ownership interests within net financial position, as this identifies the resources according to their ownership, when a formal ownership structure exists. However this is also a matter for consideration at standard setting level.

**Specific Matter for Comment 7:**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

We do not see that there are any public sector specifics that would justify a different approach to recognition from that taken by the IASB.

Accordingly, at the present time we suggest that it is necessary for the CF to be clear that in assessing existence uncertainty in relation to assets and liabilities there it has to be probable that any future benefit associated with the item will flow to or from the entity. The factors relevant for in this assessment have been discussed in the individual sections relating to assets and liabilities. However,



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the second sentence of paragraph 7.4 needs to be precise on this point, i.e. clarify that the probability has to exist. We note however that the IASB papers from February 2013 indicate that retention of this "probability test" is one of the issues subject to further discussion.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

Klaus-Peter Naumann  
Chief Executive Director

Viola Eulner  
Technical Manager

541/584

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Our Ref: PSD/ED11/2013

25 April 2013

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

Dear Madam

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

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Conceptual Framework Exposure Draft 2 issued by the International Public Sector Standards Board (IPSASB) of the International Federation of Accountants.

The Institute believes that the proposed Conceptual Framework envisaged in the Exposure Draft establish the concepts that International Public Sector Accounting Standards Board (IPSAB) will apply in setting International Public Sector Accounting Standards (IPSAS). It proposes definitions of elements used in general purpose financial statements of governments and other public sector entities and provides further explanation about these definitions and their recognition.

We have included our responses to each of the Specific Matters for Comment and IPSASB's Preliminary View in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on [icpak@icpak.com](mailto:icpak@icpak.com) or the undersigned at [nixon.omindi@icpak.com](mailto:nixon.omindi@icpak.com).

Yours Faithfully,

Nixon Omini

**Manager, Professional Standard**



*Appendix – Appendix – ICPAK's Submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

**Specific Matter for Comment 1**

***Do you agree with the definition of an asset? If not, how would you modify it?***

We agree with the proposed definition and the attributes of what constitutes an asset.

**Specific Matter for Comment 2**

***(a) Do you agree with the definition of a liability? If not, how would you modify it?***

***(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?***

ICPAK is in agreement with the proposed definition and the attributes of what constitutes a liability. We also agree with IPSASB decision to distinguish between legal and non-legal binding obligations as these terminologies makes classification more understandable and eliminating any ambiguity that would arise as explained in BC 21.

**Specific Matter for Comment 3**

***Do you agree with the definition of revenue? If not, how would you modify it?***

We do not agree with the proposed definition of revenue in the ED. We view that the broad definition of revenue to include deferred inflow as opposed to having these considered as separate elements. As captured in BC34, Revenue should be defined as *"Inflows during the current reporting period, which increases the net assets of an entity, other than ownership contributions"*.

**Specific Matter for Comment 4**

***Do you agree with the definition of expenses? If not, how would you modify it?***

As explained above for revenue, similarly, we do not agree with the proposed definition of expenses in the conceptual framework. We view that the broad definition of expenses is sufficient with IPSASB providing guidance on different categorization within expenses. Changes in outflows and inflows will then be addressed within the broader scope of expenses. We opine that any fitting deferral of expenses recognition can be achieved using the definitions of assets, liabilities, and expenses alone, taking into consideration, the control criteria for these transactions.

**Specific Matter for Comment 5**

***(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?***

***(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:***

***i. Decision to restrict those definitions to non-exchange transactions? If not, why not?***

***ii. Definitions of deferred inflows and deferred outflows? If not, how would you modify them?***

*Appendix – Appendix – ICPAK’s Submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

We do not agree with the Board’s decision to define deferred inflows and deferred outflows arising as a result of non-exchange transactions where the inflows and outflows relate to a specified future reporting period, as elements in the proposed conceptual framework. We believe that this proposal significantly modifies what generally is understood under the concept of revenue and expense, and may have a negative impact on the users’ understanding of the financial performance of the reporting entity. We strongly believe that the Conceptual Framework should only include concepts based on principles which are generally applicable to all transactions. However, due to the specific importance to public sector entities, we note that there exists a strong need to provide guidance as to when the deferred recognition of revenue and expenses, and propose that this would be appropriately addressed at standard level and not on the conceptual framework.

**Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

ICPAK agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained above that deferred inflows and outflows should not be separate elements thus eliminating the need to provide a definition for net financial position. We also agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions. We believe that the proposed conceptual framework need not define ownership interests in the conceptual framework.

**Specific Matter for Comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

ICPAK agrees with the proposed recognition criteria and the related disclosures.





Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada

30 April 2013

Stephenie Fox  
IPSASB Technical Director  
International Public Sector Accounting Standards Board

Dear Stephenie:

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework Exposure Draft 2 (CF-ED2), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*. I am responding on behalf of the Office of the Auditor General of Canada.

The exposure draft proposes definitions of elements used in general purpose financial statements of governments and other public sector entities, and provides further explanation about these definitions. We are in general agreement with the proposed definitions, but would like to signal our concern about the proposed introduction of deferred inflows and deferred outflows as elements of the framework.

Deferred inflows and outflows are not traditionally elements of a conceptual framework founded on an Asset and Liability model, but are instead based on a Revenue and Expense model. A critical issue with the Revenue and Expense model is the difficulty in developing a solid, objective basis for deferring revenue and expenses. Consequently, on balance our Office prefers a conceptual framework based on the Asset and Liability model because it is logical, defensible, and addresses qualitative characteristics of financial information that are important to users.

We offer the following responses to the specific questions posed to respondents, and trust that you will find these comments helpful. Should you have any questions, please do not hesitate to contact me at (613) 995-3708.

Yours sincerely,

Stuart Barr  
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Office of the Auditor General of Canada | Bureau du vérificateur général du Canada  
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## Specific questions posed by IPSASB:

### Question 1

Do you agree with the definition of an asset? If not, how would you modify it?

Yes, we agree with the proposed definition of an asset.

### Question 2

- a) Do you agree with the definition of a liability? If not, how would you modify it?
- b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

- a) Yes, we agree with the proposed definition of a liability.
- b) Yes, we agree with the description of non-legal binding obligations. Although written at a high level, it is generally consistent with the descriptions of non-legal binding obligations found in other financial reporting frameworks currently used by Canadian public sector entities (PSAS and IFRS).

### Question 3

Do you agree with the definition of revenue? If not, how would you modify it?

Assuming that deferred inflows and deferred outflows are accepted as financial statement elements in the IPSAS Conceptual Framework (see response to Question #5 below), we agree with the proposed definition of revenue.

For clarity, IPSASB may want to consider specifying in the revenue definition (paragraph 4.1) that the term "inflows" relates to either the inflow of service potential or economic benefits (as it does in the asset definition in paragraph 2.1).

### Question 4

Do you agree with the definition of expenses? If not, how would you modify it?

Assuming that deferred inflows and deferred outflows are accepted as financial statement elements in the IPSAS Conceptual Framework (see response to Question #5 below), we agree with the proposed definition of expenses.

Similar to our comment made related to the definition of revenue, for clarity, IPSASB may want to consider specifying in the expenses definition (paragraph 4.2) that the term "outflows" relates to either the outflow of service potential or economic benefits (as it does in the liability definition in paragraph 3.1).

### Question 5

- a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

No, we do not agree with the decision to define deferred inflows and deferred outflows as elements of the financial statements. Deferred inflows and outflows are not traditionally elements of a conceptual framework founded on an Asset and Liability model, but rather one that is based on a Revenue and Expense model.

- 3 -

The Revenue and Expense model focuses on flows of resources that are applicable to a particular period. Consequently, a critical issue with the Revenue and Expense model is the difficulty in developing a solid, objective basis for deferring revenue and expenses. (*PSAB Consultation Paper on Measuring Financial Performance in the Public Sector*, page 22)

On balance, our Office prefers a conceptual framework based on an Asset and Liability model because it is logical, defensible, and addresses qualitative characteristics of financial information that are important to users. Under the Asset and Liability model, if a change in asset or liability occurs, then it is recognized in the statement of financial performance in the period the change occurs.

Specifically, under the Asset and Liability model, no judgment is required to determine which transactions and events that affect financial position are included or excluded from the financial performance of the reporting entity. No judgment is required to ascertain if an inflow or outflow is appropriately attributable to the current or future periods. All items that represent increases or decreases in the net resources of the entity in the period between financial reporting dates are included and, therefore, part of financial performance. This ensures a level of consistency and comparability by reducing the amount of judgment needed to determine in which period an item should appear. Artificial smoothing of reported results is not possible. (*PSAB Consultation Paper on Measuring Financial Performance in the Public Sector*, page 18)

Our preference is to have no deferrals recognized in the statement of financial position that do not meet the definition of an asset or liability.

**Question 5**

- b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
- i. Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - ii. Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

Although our preference, expressed in 5a) above, is not to have items that do not meet the definition of assets or liabilities recognized in the statement of financial position, should the proposed model be adopted, we support restricting the use of deferrals to non-exchange transactions (paragraph 5.6). The establishment of tight rules around deferred inflows and outflows is needed to maximize rigour and consistency, and minimize risk of inappropriate usage of these categories.

**Question 6a**

- a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

Yes, we agree with the term net assets (Assets – Liabilities).

As our preference, expressed in 5a) above, is not to include deferred inflows and outflows as elements of financial statements, we do not agree with the definition of net financial position because it includes deferrals (Assets + Deferred Outflows – (Liabilities + Deferred Inflows) (paragraph 6.1).

IPSASB may also consider distinguishing between financial and non-financial assets on the statement of financial position, and adding a third indicator called "net debt" (or "net financial assets") (paragraph 6.1). Canadian public sector entities following the Public Sector Accounting Handbook are required to present this indicator on their statement of financial position as it highlights the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to apply financial resources and future revenues to the provision of services.

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**Question 6b**

- b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

Yes, we agree with the decision to define ownership contributions and ownership distributions as elements of the financial statements.

**Question 6c**

- c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

The definitions of ownership contributions and ownership distributions are, in our view, appropriate.

**Question 6d**

- d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

Although the definitions of ownership contributions and ownership distributions are clear, we feel that the inclusion of a discussion or a definition of what constitutes an ownership interest would help ensure consistent, appropriate interpretation of which transactions will increase/decrease net assets without an effect on an entity's statement of financial performance (paragraphs 6.3-6.7). This is particularly important in a public service environment where the forms of ownership may not be clearly recognized in the financial statements, as control may exist through means other than share ownership.

**Question 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

We agree that in order to have an element recognized in the financial statements, the uncertainty regarding its existence and measurement must be addressed. We think the discussion is presented at the right level for a Conceptual Framework, recognizing that more detailed guidance may be needed in the standards themselves to help preparers / users assess an acceptable level of uncertainty.

**Comments on Exposure Draft 2: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:  
Elements and Recognition in Financial Statements**

<p><b>1.</b></p>	<p><b>Specific Matter for Comment 1</b></p> <p>Do you agree with the definition of an asset? If not, how would you modify it?</p>	<p>In reviewing the definition of an asset, the following documents were also considered:</p> <ol style="list-style-type: none"> <li>1) IPSASB – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Exposure Draft April 2011)</li> <li>2) IASB/FASB – Definition of Assets</li> <li>3) Exposure Draft 2: Conceptual Framework - Basis for Conclusions (BC3 – BC20)</li> </ol> <p>It is our opinion that an IPSASB definition of an asset should reflect the unique characteristics of assets in the public sector, where ‘public sector’ has been referred to by IPSASB to include “national governments, sub-national governments, local government units and regulatory bodies . . . and Government Business Enterprises (GBEs)”.</p> <p>The unique characteristics of the public sector that should be considered are:</p> <ol style="list-style-type: none"> <li>i) The public sector is expected to deliver goods and services that are not necessarily to generate profits/positive cash flows.</li> <li>ii) There is an obligation for the public sector to provide non-exchange ‘social goods’ such as welfare services for which any fees charged may not be commensurate with the value of the service provided.</li> <li>iii) A significant proportion of public sector revenue is derived from involuntary non-exchange transactions, mainly taxation; and involuntary transfers governed by treaties and conventions. This gives rise to the issue of a government’s capacity to generate the revenue required to meet its</li> </ol>
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		<p>obligations through non-exchange transactions.</p> <p>iv) A significant portion of property, plant and equipment held in the public sector are for the welfare of citizens as well as future economic benefits.</p> <p>v) A significant portion of government assets are specialized in nature (e.g. roads and heritage assets) with a very limited market for their sale. This gives rise to issues of measuring such assets.</p> <p>vi) The date of the ‘past event’ that gave rise to the asset may not be clear.</p> <p>It is our view that the unique characteristics described at i) – vi) above are not reflected in the ED, which defines an asset as <i>“a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.”</i> This definition is similar to the IASB definition that mainly applies to the private sector/non-governmental entities, which states, <i>“An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.”</i></p> <p>The key features of an asset from these definitions are: a) past event; b) control; and c) future economic benefits, which are not completely relevant to the public sector based on its unique characteristics described at i) – vi) above. A relevant and robust definition of an asset could be:</p> <p><i>“A resource, with the ability to provide <b>social</b> or economic benefits that an entity presently controls, and which arises from a <b>probable/an identifiable</b> past event.”</i></p> <p>IPSASB defines a liability as <i>“a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity”</i>.</p> <p><b>NB: Social – welfare, recreational, charitable.</b></p>
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	<p><b>Specific Matter for Comment 2</b></p> <p>(a) Do you agree with the definition of a liability? If not, how would you modify it?</p> <p>(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?</p>	<p>In our opinion, this definition is generally relevant to the public sector. However, the use of the controversial term 'past event' raises a similar concern of the difficulty to clearly establish the date of its occurrence as seen in the definition of an asset. I support the proponents referred to at BC27 to the ED's Basis for Conclusions that believe that "identification of a past event is not an essential characteristic of a liability . . . there may be many possible past events and that establishing the key past event is likely to be arbitrary". The opposing view that "identifying the key past event is necessary to determining when public sector liabilities should be recognized" is also acknowledged.</p> <p>Since the present obligation should be linked to an occurrence in the past, I believe that 'prior binding commitment' would be a narrower and less arbitrary reference point than 'past event', which would amend the definition to read:</p> <p><i>"A liability is a present obligation that arises from a <b>prior binding commitment</b> where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity".</i></p> <p>We believe that the description of non-legal binding obligations is clear and does not require modification.</p>
2.	<p><b>Specific Matter for Comment 3</b></p> <p>Do you agree with the definition of revenue? If not, how would you modify it?</p>	<p>NO.</p> <ul style="list-style-type: none"> <li>a) Modify the wording of the definition to focus on changes in assets and liabilities instead of current period flows.</li> <li>b) Exclude 4.1. (b)</li> <li>c) Explicitly include verbiage that clarifies how gains are treated per Section 4 of Basis of Conclusions, clause BC38.</li> </ul> <p>NO.</p> <ul style="list-style-type: none"> <li>a) Modify the wording of the definition to focus on changes in assets and</li> </ul>

	<p><b>Specific Matter for Comment 4</b></p> <p>Do you agree with the definition of expenses? If not, how would you modify it?</p>	<p>liabilities instead of current period flows.</p> <ul style="list-style-type: none"> <li>b) Exclude 4.2 (b)</li> <li>c) Explicitly include verbiage that clarifies how losses are treated per Section 4 of Basis of Conclusions, clause BC38.</li> </ul> <p>The definition for these seminal elements of financial statements as provided in this conceptual framework differs in key respects from that already promulgated by the IAASB in its Conceptual Framework for Financial Statements 2010 (CFFFS 2010). To some degree this is due to the differing nature of the entities concerned, i.e., public sector vis-à-vis commercial enterprises.</p> <p>The differences are:</p> <ul style="list-style-type: none"> <li>a) The treatment of revenue and expenses as current period flows is I think particularly apt for the public sector environment, but it does however, have the concomitant difficulties which arise when there is the need to consider the impact of deferral of these flows. As deferred flows are a significant issue in the public sector, for clarity it might be advisable to couch these definitions from the perspective of changes in assets and liabilities.</li> <li>b) Use in the definition of revenue and expense of the term “net assets of an entity” rather than “equity” as in CFFFS 2010. This difference is cosmetic as the two terms mean essentially the same thing. However, I believe “net assets of an entity” is more meaningful in a public sector context.</li> <li>c) Expansion of these definitions to account for current reporting period deferred inflows and outflows, respectively. This takes the definition of revenue and expenses beyond that already outlined in CFFFS 2010 and results in an accounting treatment that is counter-intuitive to accepted practice which treats deferred inflows and outflows as impacting assets and liabilities rather than revenue and expense. Section 1.6 of this very framework outlines</li> </ul>
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		<p>exact same position. It is and will therefore be, I believe confusing to the average user of financial statements for such a radical shift in accepted classification to be used. I am therefore inclined to agree with the Alternative View of Prof. Mariano D'Amore that deferred outflows and inflows should be separated from revenue and expenses, see AV 4, page 34. Such a treatment is also in keeping with Government Accounting Standards Board (GASB) 63.</p> <p>Finally, gains and losses are not considered conceptually different from revenue and expenses and are therefore not separately defined. This position is detailed in Basis for Conclusions, section 4, clause BC 38. It would however be good to include this as part of the Conceptual Framework explicitly</p>
3.	<p><b>Specific Matter for Comment 5</b></p> <p>(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?</p> <p>(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:</p> <p>(i) Decision to restrict those definitions to non-exchange transactions? If not, why not? 4</p> <p>(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?</p>	<p>a) An element is a broad aggregation of economic transactions that make sense to the users of financial reports, that is, it helps to improve accountability and decision making. The ED identifies eight elements:</p> <ol style="list-style-type: none"> <li>1. Assets</li> <li>2. Liabilities</li> <li>3. Deferred Inflows</li> <li>4. Deferred Outflows</li> <li>5. Ownership Contributions</li> <li>6. Ownership Distributions</li> <li>7. Revenues</li> <li>8. Expenses.</li> </ol> <p>Elements 1 through 4 combine to yield the Net Financial Position of the entity, which under this framework is Net Assets adjusted to include the net effect of Deferred Inflows and Deferred Outflows.</p> <p>The ED asks if deferred inflows and deferred outflows deserve to be elevated to the position of elements in the Statement of Financial Position.</p>

		<p>What are deferred inflows and deferred outflows?</p> <p>In essence, these are <u>non-exchange transactions (more likely to be found in public sector or not-for-profit entities)</u> that generate service potential or economic benefit in a <u>specified future financial period</u>.</p> <p>In a non-exchange transaction, one party does not expect to derive benefits that are commensurate with the value delivered, as in a donation or a grant of funds or an advance payment of taxes (unlikely in the Jamaican public sector environment).</p> <p>Because, by definition, the benefit to be generated by the recipient does not arise until some future period, the entity receiving the value would not classify the transaction as “revenue” in the current reporting period but as “deferred inflows”. Note, of course, that under the double entry system, the funds received would be classified as an asset, that is, “a resource that an entity presently controls capable of generating service potential or economic benefit, and which arises from a past event”.</p> <p>In this regard, the representation of the transaction as a “deferred inflow” indicates how much of the organization’s assets are reserved for financing spending in the future at which time the deferred inflows will be reported as revenues.</p> <p>On the other hand, the entity delivering the value would classify the transaction under the element “deferred outflow” and would delay reporting it as an expense until the specified future financial period(s).</p> <p>If one accepts that in the circumstances outlined above, the inflows should not be recognized as revenues in the books of the receiving entity, nor the outflows as expenses in the books of the donor entity as they do not affect the amount available for spending in the current reporting period, one question to be posed is, “why can they not be subsumed under the elements “liabilities” and “assets”?</p> <p>The argument is that in public sector entities, there is (or could be) a prevalence of</p>
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		<p>non-exchange transactions, and reporting them as deferred inflows and deferred outflows under liabilities and assets would be misleading to the user's interpretation of the change in net assets (and therefore the change in the Owner's financial position) as these deferred flows are not available for use by the entity at the date of the statement.</p> <p>In our opinion, it is difficult to see how the introduction of these two new elements improves the understanding of financial statements when the effect of the deferred inflows/outflows will typically be reported as an increase/decrease in Assets (bank balance) unless the intention is to report the change in separate lines or new elements as <i>"funds held for future spending"/ "funds to be applied to future spending"</i>.</p> <p>It is our opinion that the introduction of the elements "deferred inflows" and "deferred outflows" in financial reporting, even in public sector accounting, will serve to confuse users grown accustomed to the concept of "net assets" as representing the Owner's equity especially in circumstances where the value of non-exchange transactions may not be material.</p> <p>Our preference would be to introduce a statement akin to the Statement of Comprehensive Income to incorporate the deferred flows below the Net Surplus line (Revenues less Expenses) while maintaining the integrity of the Statement of Financial Position with bank and other cash balances that reflect resources held by the entity even if control is theoretically absent or arise from obligations that are not present obligations. For completeness, the Statement should show <i>Funds held for future spending</i> in a separate line under Assets and <i>Funds to be applied to future spending</i> in a separate line under Liabilities with appropriate note disclosures.</p>
4.	<p><b>Specific Matter for Comment 6</b></p> <p>(a) Do you agree with the terms net</p>	<p>(a) No.</p>

	<p>assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?</p> <p>(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?</p> <p>(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?</p> <p>(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?</p>	<p>Following the comments on specific matter 5 above, deferred inflows and deferred outflows should be excluded from the definitions on net assets and net financial positions.</p> <p><b>Definition</b> - "Net assets is the difference between assets and liabilities."</p> <p>a) The term net assets could be described in more detail as per the draft exposure to give consideration to some of the major elements such as :</p> <ul style="list-style-type: none"> <li>the underlying assumption to assist in identifying and to determine the transaction which gives rise to an asset or a liability</li> <li>The determination which would give rise to the offset, that is, the "right of offset" which leads to the principle that the items are of the same type for offset.</li> <li>That the benefits derived are comparable and the flows are within the same time period.</li> </ul> <p>This is important also when the distinction is being made between net financial positions. Or otherwise reference is to be made to the detail definition and distinction.</p> <p>b) &amp; c) - the decision to define the ownership contribution and ownership distribution is very important – i.e. subsidiary, quasi subsidiary, etc... As this can have a significant impact on the asset and liabilities e.g. Such as sale of a subsidiary etc.</p> <p>c) The definition could elaborate to incorporate mergers, consolidation, etc. of government entities.</p> <p>d) The ownership interest should be defined in this conceptual framework as it matters how one would treat with the asset or liability – off balance sheet reporting , disclosure notes or would such ownership interest directly be</p>
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	<p><b>Specific Matter for Comment 7</b></p> <p>Do you agree with the discussion on recognition? If not, how would you modify it?</p>	<p>reflected in the net asset or the net financial position. The ownership interest can impact significantly the net asset or net financial position and so should be defined within the conceptual framework.</p> <p>(b) Proposing that the question be adjusted to read: Should ownership contribution and ownership distributions be regarded as elements of your financial statements? As a result the answer would be yes and the definition would be agreed on.</p>
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**Exposure Draft 3: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

<b>1.</b>	<p><b>Specific Matter for Comment 1</b></p> <p>Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective</p>	<p>The selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objective of financial reporting. The measurement objective should be based on a current measurement value. Where Net Selling Price is relevant, in most cases it will be adequately representationally faithful, verifiable and comparable between entities and should be the measurement of choice. Assessments of Net Selling Price are likely to be straightforward to obtain and provide understandable, verifiable information capable of being produced in a timely manner. Since the measurement is based on observable market value it is likely to provide information that is comparable between entities.</p>
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	should be and give your reasons.	Value in use would be relevant to assessments of impairment and other limited relevant cases.
<b>2.</b>	<p><b>Specific Matter for Comment 2</b></p> <p>Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	
<b>3.</b>	<p><b>Specific Matters for Comment 3</b></p> <p>Do you agree with the approaches proposed in Section 4 for application of:</p> <p>(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and</p>	<p>The fair value model measurement basis for an asset is the amount for which the asset can be sold for in an active, open and orderly market at the measurement date under current market conditions. In other words, there must be a specific market for the assets. The model is predicated on certain assumptions:</p> <ol style="list-style-type: none"> <li>1. The asset will be used in its highest &amp; best use, taking into account physical characteristics and uses that are legally permissible and financially feasible.</li> <li>2. The transaction takes place in the principal and most advantageous market for the asset.</li> <li>3. The most appropriate valuation techniques are used which considers assumptions market participants will use when pricing the asset.</li> </ol> <p>We do not agree with this measurement basis because the assumptions appear to be impractical for non-financial assets.</p> <p>The first assumption implies the optimal efficiency of the asset, which is dependent certain factors. For instance, availability of competent staff to put the machinery to</p>

	<p>(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.</p>	<p>use, training costs associated with raising the capacity of staff, is there a market for the end product, the economic climate may affect maintenance/servicing of machinery, the remaining useful life of the asset also impacts on the optimal use.</p> <p>The second assumption of the transaction taking place in the principal &amp; most advantageous market may be difficult to assess. In the principal and most advantageous market, there is likely to be many competitors i.e. entities that may be in the same line of business. This may impact on the price an organization is willing to pay.</p> <p>Determining the most appropriate valuation technique based on assumptions made by market participants seems as if it is going to be a subjective process.</p> <p>Additionally, the model excludes transaction costs in selling an asset. The proceeds of the sale will therefore seem more because it did not reflect costs which will be associated with the sale of the asset.</p>
4.	<p><b>Specific Matter for Comment 4</b></p> <p>Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	<p>a. Historical cost: Liabilities are recorded at the amount of proceeds received in exchange for the obligation or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.</p> <p>Discussion:</p> <p>This is a very practical measurement bases, notwithstanding the limitations of not being able to be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages or in situations in which the liability vary in amount such as defined benefit pension liabilities.</p>

		<p>b. Market value: this refers to trading in a competitive auction setting. Market value is often used interchangeably with <i>open market value</i>, <i>fair value</i> or <i>fair market value</i>, although these terms have distinct definitions in different standards, and may differ in some circumstances.</p> <p>Discussion:</p> <p>This seems more appropriate in a situation where there would be a third party who would accept the liability being transferred to him. (Believed that it would be much more than the actual amount outstanding)</p> <p>However, because it is extremely unlikely that there will be an open, active and orderly market for liabilities, this is the only one I think that could be out.</p> <p>c. Cost of release: the amount to which to exit from an obligation e.g. that which is contained in an agreement such as cancellation clause.</p> <p>Discussion:</p> <p>This could involve cash transaction in which there may be a discount if there is an (immediate exit from the obligation) in comparison to a credit situation where a premium would be charged by the third party to (accept the transfer of the liability from the obligator). Not aware that there is so much flexibility with public entities.</p> <p>d. Assumption price: “the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability”</p> <p>Discussion:</p> <p>This is similar to “<b>cost of release</b>” i.e. the amount that a third party would charge to</p>
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		<p>accept the transfer of the liability from the obligator.</p> <p>e. Cost of fulfillment:</p> <p>Discussion:</p> <p>Appears to mean that the entity could end up paying more than what was originally agreed. However, based on the operations of Gov. Entities, this would only be practical in situations in which the estimates or prices are quoted in foreign currency and or being imported, thus the cost of fulfillment could be different from the estimated price.</p> <p><b><u>Conclusion</u></b></p> <p>There would be the need to look at how the liabilities were incurred / created by the entities and consider the uniqueness of the operations of government entities in terms of procurement process. In a commercial company, all would be appropriate. The measurement bases as they are capture the many possibilities. However, the appropriate measurement bases are highly dependent on how the transaction was created and the authority of the entity which will have to settle the obligation.</p>
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28<sup>th</sup> April 2013

**The Technical Director**  
**International Public Sector Accounting Standards Board**  
**International Federation of Accountants**  
**277 Wellington Street West, 6<sup>th</sup> Floor**  
**Toronto, Ontario M5V 3H2**  
**CANADA**

Dear Stephenie,

**Comments on Conceptual Framework Exposure Draft Two (2) – Elements and Recognition in Financial Statements.**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Exposure Draft two (2) - Elements and Recognition in Financial Statements; issued by the International Public Sector Accounting Standards Board (IPSASB), in November 2012.

We strongly supports the IPSASB's plan to finalise the Conceptual Framework project, as it will provide a framework for the consistent and comparable preparation and presentation of financial statement discussion and analysis in public sector entities' financial statements.

The Institute deliberated the ED and generally agrees with the proposed elements; however we do not fully support the new elements introduced, such as deferred outflows, deferred inflows, ownership contributions and ownership distributions. We are of the view that the new proposed elements should be part of the existing five elements.



Our responses to specific questions are as follows:

### **Question 1**

Do you agree with the definition of an asset? If not, how would you modify it?

#### **Comment**

We agree with the proposed definition of an asset as it has covered key attributes (i.e. resource, service potential, economic benefits, control and past event).

### **Question 2**

- a) Do you agree with the definition of a liability? If not, how would you modify it?
- b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

#### **Comment**

- a) We agree with the proposed definition of a liability. However, we do propose that the definition be extended to cover also deferred outflows.
- b) We agree with the description of non-legal binding obligations

### **Question 3**

Do you agree with the definition of revenue? If not, how would you modify it?

#### **Comment**

We do not fully agree with the proposed definition. We propose it reads “Revenue is inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions”.

### **Question 4**

Do you agree with the definition of expenses? If not, how would you modify it?

#### **Comment**

As per our general response, we do not fully agree with the proposed definition of expenses. We propose it reads “Expense is outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions”.

### Question 5

- a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
  - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

#### Comment

We do not support the proposal to identify and recognize deferred inflows and deferred outflows as separate elements. The proposal would significantly modify the current accounting principles and would negatively impact on the understandability of the financial statements by the users. Further the IFRSs have got five elements of the financial statements, therefore for comparability purpose we propose to maintain five elements also in the IPSASs.

### Question 6

- a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

#### Comment

- a) We do agree with the definition of net assets. However the definition for net financial position is not necessary, as we feel deferred inflows and deferred outflows should not be separate elements.
- b) We do not agree with the decision to define ownership contributions and ownership distributions as elements, they should be treated as the elements of changes in equity.
- c) Refer to our response to question 6 (b) above.

d) We do not consider it necessary to define ownership interests in the conceptual framework.

**Question 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

**Comment**

We agree with the proposed recognition criteria.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi  
**Technical and Standards Manager**

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

Dear Stephanie,

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

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on its Exposure Draft (ED). We are wholly supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and improve the transparency and accountability of government reporting.

**General Comment**

One of the most significant issues we find is inconsistent interpretation of accounting standards by the accounting community. We therefore encourage all accounting standard setters to use, wherever possible, consistent language in determining accounting definitions. This should ensure that assets and liabilities are consistently identified and reported.

Our comments on the specific questions asked by the IPSASB are as follows:

**Specific Matters for Comment 1**

**a) Do you agree with the definition of an asset? If not, how would you modify it?**

IPSASBs current proposal is: *"An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event."*

IPSAS 1 describes an asset as *"embodying service potential."* We do not believe that an asset necessarily delivers an inflow of service potential to the entity that holds it. We consider that an asset is used by the entity to deliver an outflow of services to the Public.

The IASB defines an asset as: *"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."*

We suggest that IPSAS mirrors more closely the IASB definition and suggest the following definition: An asset is a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity, or from which service potential is expected to be extracted by the entity in the future.

**Specific matter for Comment 2**

**b) Do you agree with the definition of a liability? If not how would you modify it?**

We disagree with the definition of a liability because it introduces a recognition threshold that we believe is very high and is potentially inconsistent with IFRS. *“Little or no realistic alternative”* can be interpreted as a much higher threshold test than the threshold test of *“expected”* used by the IASB in IAS 37. The IASB uses a *“virtually certain”* threshold test to recognise contingent assets. *“Little or no realistic alternative”* can be interpreted as being closer to *“virtually certain”* than *“expected.”*

We suggest the definition is amended to mirror more closely the IAS 37 definition as follows: A liability is a present obligation of the entity arising from past events the settlement of which is expected to a result in an outflow from the entity of resources embodying economic benefits, or service potential, or both.

We suggest the definition of a present obligation is also amended in line with our suggestion for a liability.

**c) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

We consider that in principle it matters not whether an obligation is legal or non-legal. The legality of an obligation provides auditable documentation of the enforcement rights to the recipient of the economic benefits or service potential, it does not necessarily crystallise recognition of the obligation. However, we agree that non-legal obligations can be difficult for entities to recognise and therefore the attributes set out in paragraph 3.10 are important features for the standard to provide.

We do not consider paragraph 3.10c) to be necessary because it is covered in the definition of a present obligation in paragraph 3.2. We consider the rest of 3.10, 3.11 and 3.12 to be appropriate.

**Specific matter for Comment 3**

**Do you agree with the definition of revenue? If not how would you modify it?**

We dislike the use of the term ‘revenue’ with regard to public sector entities because it is widely applied by profit orientated entities in describing income from operating activities. A public sector entity typically receives income from government to cover the cost of the service it is required to provide. A public sector entity may also charge (in whole or in part) for certain services such as licenses. We are uncomfortable with describing these incomes as revenue and would prefer to label them ‘income.’ It may be that reporters may wish to label certain incomes as ‘operational income’ and other incomes as ‘other’ or ‘non-operational’ however, we would not be prescriptive on such an approach.

We consider ‘inflows’ does not sufficiently describe income and suggest starting 4.1 a) and b) with: Inflows of economic benefits and/or assets embodying service potential during the current...

**Specific matter from Comment 4**

**Do you agree with the definition of expenses? If not how would you modify it?**

We consider ‘Outflows’ does not sufficiently describe expenses and suggest starting 4.2 a) and b) with: Outflows of economic benefits and/or assets embodying service potential during the current...

**Specific matter for Comment 5**

**a) Do you agree with the decision to define deferred inflows and deferred outflows as elements?**

We do not agree that it is necessary to define deferred inflows and deferred outflows separately or to limit them to non-exchange transactions. Paragraphs 5.1 and 5.2 state it is provided to use in a future period. If this is the case then there is a limitation attached to the service potential or economic benefits which mean that it cannot be used or accessed. If it is not the case then in a non-exchange transaction it should be recognised immediately.

**Specific matter for Comment 6**

- a) Do you agree with the terms net assets and net financial position and the definitions?
- b) Do you agree with the decision to define ownership contributions and distributions as elements?
- c) If you agree do you agree with the definitions?
- d) Ownership interests have not been defined do you think they should be?

Yes we agree with the terms.

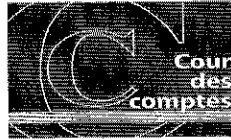
No we do not agree because we do not agree with describing deferred inflows and outflows as separate elements.

No we do not.

Yours faithfully

Steven Ralls BA, FCA  
Head of Accounting and Auditing Standards Desk  
Financial Audit and Examination, Abu Dhabi Accountability Authority





Paris, 30 April 2013

**Comité consultatif sur la normalisation des comptes publics**

**Advisory committee on public accounts standardization**

*The Chairman*

**Objet: Exposure draft, conceptual framework phase 2, « Elements and Recognition in the Financial Statements »**

Dear Mrs Fox,

Please, find enclosed the response of the « Cour des Comptes » to the above mentioned Exposure Draft.

The Cour des Comptes is the French Supreme Audit Institution for the public sector. It has, among its main tasks, the legal duty to audit each year the financial statements of the French Central government and of the French social security system. It has also a portfolio of several external audit mandates of annual financial statements of International Organizations, most of them fully IPSAS compliant or on the way to IPSAS compliance.

The internal Advisory Committee of the French supreme and local courts of public auditors is in charge of finalization of their positions and advices on accounting standards dealing with the three components of the public sector (central government, local authorities, and social security).

The Cour des Comptes thanks the IPSAS Board to give the opportunity to express some views on this Exposure Draft, which for a large part, rely on its practical and direct experience of audit and of IPSAS.

It notes, as a preliminary comment, that the IPSAS Board has made a significant effort in the improvement of the previous concepts and contents, which were submitted to discussion at the earlier stage in the consultation paper issued in 2010.

The Cour des Comptes welcomes the assessment that the IPSAS conceptual framework is not an IFRS convergence project, neither that it has the purpose to apply an interpretation of the IASB Framework to the public sector. This assessment expresses that public sector specificities must be considered, especially at the conceptual framework level.

However, in spite of efforts to clarify and give examples, the ED displays some positions that have to be amended.

The most important areas of disagreement deal with the following elements:

A) On the assets definition : the control criteria should rely more on a legal or contractual dimension, including property or disposal rights, and be clearer on the eventuality of a same asset being accounted for by multiple entities when the control is discussed between them.

B) The Cour des Comptes does not agree with the inclusion of “non-legal binding obligations” as element of the liabilities at the conceptual framework level.

The ED introduces controversial criterias such as “valid expectations from the beneficiaries”, which is irrelevant in the public sector (unlike in the private companies, where this concept makes sense), especially in those jurisdictions where relations between the public sector and other economic sectors (enterprises, menages) are submitted to imperative written laws and regulations.

Liabilities should, as stated in previous answers, be in priority based on legal binding obligations under the present rules or contracts, with anticipations of future losses and contingent liabilities specificities to be treated at the standard level, and not at the conceptual framework level.

C) The Cour des Comptes expresses its disagreement on the elements described as “deferred inflows or outflows” to be distinguished from assets and liabilities. Even if they are restricted to “non-exchange transactions”, it remains difficult to understand why these items are given such a status at the conceptual framework level. The treatment of future revenues or expenses as a consequence of a former resource received or given seems more to be relevant of the standard level.

For the Cour des comptes, funds received by an entity, dedicated to a future investment, with a stipulation for a multiyear period of use, have to be recognized as liabilities, and, afterwards, transferred, pro rata, as revenues in the coming years. If those funds are clearly dedicated to support current operations, they have to be considered as revenues. But the appreciation of these operations is to be done on a case by case basis, since they are very heterogeneous, and their accounting treatment should be defined in the standards.

Our specific comments are disclosed below.

A handwritten signature in black ink, appearing to read 'R. Briet', with a stylized flourish at the end.

Raoul BRIET

## **Annex : Specific matters for comments**

### **Specific Matter for Comment 1**

*(Do you agree with the definition of an asset...?)*

#### **Response:**

Global agreement, but:

1 The control criteria should rely more on a legal or contractual dimension, including property or disposal rights, and clarify the question of when the same asset is accounted for by multiple entities and the issue of control is discussed between them.

- A conflict of criteria may happen between the “generation of income and economic benefits” on one hand, and the “access or ability to deny access to the resource” on the other hand. For example, an International Organization can recognize some equipment as assets, source of determination of revenues as contributions from member states, although access to this equipment, located in labs or research units, is submitted to authorization by local authorities.

- The public sector can meet situations where two public entities may claim the same level of total control on an asset (such as intangible assets, or art collections belonging to an entity and kept in a museum managed by another one), for political, historical or technical reasons. The same asset could be at the same time recognized in separate financial statements. Such events would less be likely to happen if the control criteria were also linked to legal justification, such as property rights. The framework should clearly state if an asset may or may not be recorded in its entirety by two distinct public entities.

2 The Conceptual framework should also indicate that assets include contingent assets, state that the accounting treatment of contingent assets is to be found in the standards, and indicate that they are not components of “net assets” (displayed in the statement of financial position) which is defined below in the ED.

3 The exposure draft does not mention the issue of sovereignty in assets recognition, although this has a major importance at the conceptual level, such as the impossibility to register the ability to collect tax under constraint, or to change laws and regulations. These « assets » are strategic and impact the appreciation of users of financial statements, especially investors. It should at least be settled in the conceptual framework that the impossibility to recognize these assets as elements and to measure them does not mean that they do not exist and have to be ignored.

### **Specific Matter for Comment 2**

- a) *Do you agree with the definition of a liability..?*
- b) *Do you agree with... non-legal binding obligations...?*

**Response:**

- a) *(Agreement on the definition of a liability?)*

Yes but:

The Conceptual framework should indicate that liabilities include contingent liabilities, a definition of them being welcome here, and indicate that they have to be distinguished from anticipations of future losses due to a past event. The accounting treatment of contingent liabilities is to be found in standards, and they are not components of the net asset term defined in the ED.

Otherwise, the meaning of the definition of liabilities is weakened by the absence of a standard on "social benefits", and uncertainty on the perimeter of the notion of liabilities.

- b) *(Non-legal binding obligations)*

Disagreement.

Non legal or contractual binding obligations may occur, but the ED lists three criteria among which some are inaccurate. It is not clear if, for the recognition of a non-legal binding obligation, they have to be taken as a whole or only one out of three.

The Cour des Comptes strongly opposes the b) criteria ("valid expectation"). Public entities are subject to infinite expectations, campaign pledges or political, bargaining and diplomatic strategies. The recognition of a "valid expectation" in financial statements could alter the position of the entity itself in challenging of expectations. Moreover, public entities have the ultimate power to change legal rules, so the recognition of a non-legal binding obligation in the financial statements would interfere with the Legislator prerogatives.

The Cour des Comptes is also not at ease with the criteria: "a) *the entity has indicated to other parties by an established pattern of past practices, published policies or sufficient current public statement ...*" because this creates a new category of rules in a field where the Legislator or the legal authorities must proceed under formal ways to create obligations, other than "*indications*", respecting constitutional, budgetary, administrative and other procedures,.

The criteria: "c) *little possibility to avoid*" is less controversial, but how will it match with secret (and unavoidable) obligations in public affairs linked to sovereignty?

**Specific Matter for Comment 3**

*(Do you agree with the definition of revenue ...?)*

**Response:**

The Cour des Comptes regrets that the IPSAS Board has withdrawn any other reference unless variations of net assets or liabilities to define revenues and expenses; this makes all visible link with the current or operational activity of the entity disappear. Such basic notions as revenues or expenses loose in this approach a big part of their meaning for large numbers of users or public decision makers, expecting a concrete significance of elements in the financial statements more than abstraction, familiar only to few theorists.

In the debate “balance sheet” versus “flows” models, the Cour des Comptes wishes to keep a balance between different notions. The Cour reaffirms its attachment to maintain a strong conceptual link between revenues and annual inflows of current resources of public entities, notions familiar for users of financial statements, especially public elected decision makers. The Cour recognizes also that the link has to be kept between variations of assets and liabilities on one hand and the statement of financial performance on the other hand.

**Specific Matter for Comment 4**

*Do you agree with the definition of expenses ...?*

**Response:** see above response to SMC 3, similar comment.

**Specific Matter for Comment 5**

a) *Do you agree with the decision to define deferred inflows or outflows as elements...?*

b) *If yes ... /*

i) *Do you agree with the decision to restrict those definitions to non- exchange transactions?*

ii) *ii) Do you agree with the definition of deferred inflows or outflows...?*

**Response:** « deferred inflow or outflows »

a) *(Definition as elements):*

Disagreement.

Presentation and definition of « deferred inflows or outflows » are too complex and are not expected to give way to an immediate assimilation of these concepts which can be understood in various meanings. An illustration, such as a disclosure of a set of identified inflows or outflows, supported by according accounts schemes, would have been welcome, and is here missing.

The Cour has understood, through the short examples mentioned, that the “deferred flows” are elements that will get a specific reporting, distinct from assets and liabilities. In that scope, the indications mentioned in § 5.4 (multi -year grant, non-refundable), and BC 45 (tax, collected in N and to be spent in future years), lack clarity, because there is no information on their accounting treatment, but only on “reporting”.

For the Cour des Comptes, when a stable resource, coming from a non-exchange transaction, not dedicated to the compensation of exploitation deficits or the funding of current operations, is given or received, it has to be treated as an asset or a liability. Afterwards, this resource,



designed to be used on a multi-year function, will have to be transferred on a pro rata basis to revenues or expenditures of the concerned future years. If this resource is clearly devoted to support current operations, they have to be considered as revenues (when received) or expenditure (when given).

The example given in the ED of a multi-year grant registered one year by the beneficiary as an asset but dedicated to special tasks to be done by him in the future, seems close to a common accounting practice of transferring, to future years revenues, parts of the multi-year grant previously recorded as an asset. So, the Cour des Comptes does not see the necessity to create a new category of elements, even if it is only dedicated to the presentation of a "net financial position" distinguished from 'net assets'.

The Cour des Comptes notices that two alternative views are displayed by two members, which confirms that this issue is controversial. It is not insensible to the views of Mrs Poggiolini, assimilating these flows to revenues or expenses, therefore adding the possibility, as stated above, to consider a stable resource coming from a non- exchange transaction first as a liability, that will be afterwards transferred steps by steps to future revenues, as it is now practiced for investments subsidies in the French public sector (with reciprocity for given resources transferred from assets to future expenses).

The Cour considers inappropriate to destabilize, at the conceptual framework level, a common principle, fundamental and universal such as assets and liabilities being the two opposite components of the patrimony of an entity, through the introduction of new and unclear distinct elements.

b) N/A, (see above)

#### **Specific Matter for Comment 6**

- a) *Do you agree with the terms net assets and net financial position ...?*
- b) *Do you agree with the decision to definition ownership contributions and distributions as elements...?*
- c) *If yes, do you agree with the definition of ownership contributions and distributions...?*
- d) *Should ownership interests be defined in the conceptual framework ...?*

#### **Response**

- a) *(Agreement with terms?)*

"Net assets" is of common use. But the conceptual framework should add that, because of the inherent incapacity of the public sector to identify and measure in accountancy some major specific assets, especially in relation with sovereignty and ability to generate income through constraint, the concept of "net asset", as practiced in the financial statements, is here largely missing sense.

The Cour disagrees with the definition of “*net financial position*”. This term carries more confusion than help to the user. It has a terminology focused on assets and liabilities of financial nature, which is not adequate to its purpose.

b) (*Ownership contributions or distributions*)

N/A

Ownership contributions or distribution do not seem to be a relevant element in the public sector, at least in France. There is no indication that these concepts may be useful in other jurisdictions.

The “fair return on surpluses” (produced by their contributions) to member states is a sensitive issue in International Organizations. It has to be looked at considering their statutory rules. These restrictions push for dealing with the proposed elements at the standard level, mainly relating to the treatment of surpluses, not in the conceptual framework.

c) N/A

d) No, see b)

#### **Specific Matter for Comment 7**

Do you agree with the discussion on recognition?

#### **Response:**

The Cour des Comptes has no comment on that point.

Comments on  
IPSASB  
CONCEPTUAL FRAMEWORK  
EXPOSURE DRAFT 2

"Measurement of Revenue and Expenses in Financial Statements"

Graeme Hall-Watson BCA. CPA.

Introductory Comments

I have had 22 years as a corporate accountant in the private sector and the for the last 18 years I have specialised in financial reporting and budgeting in the public sector, most significantly in local government. Since Australia introduced accrual accounting into this sector in 1994, the issue of financial reporting on sustainability through the maintenance of the entity's physical operating capability, has been the focus I have pursued. Many Queensland local governments have adopted this reporting framework.

The measurement of and the reporting on the physical operating capability has not been recognised in the submissions I have read to date. The ability of a public sector entity to deliver services to the community on a perpetual basis relies on its ability to maintain to its physical operating capability at a financially sustainable level.

While the IPSASB correctly seeks to identify and measure the value of assets and liabilities, the components of equity do not get a mention. The attached discussion paper that I have written seeks to bring the components of equity into focus as an important element of reporting on the financial performance and sustainability of the entity.

When considering the maintenance of the physical operating capability, it is important to report on whether the opening value has been maintained at the end of the reporting period. The measurement of this is found in the net operating result. I would suggest that in adopting this framework, a profit has not been made unless the physical operating capability at the end of the period has been maintained. My discussion paper goes into this in more detail.

Within the public sector and in particular local government, there are elements of current period revenue and expenses that have no or little relevance in the measurement of the financial performance in the reporting period, but do impact on the ability to maintain the financial performance in future periods. These are items of capital income and capital expenditure as described in my paper.

While all enterprises seek to be financially successful, the measurement of this outcome should be seen as fundamentally different for the stake holders. For those in the public sector the indicators of financial sustainability at all levels of government are different from the private sector. The community, whether it be at national, state or at local government level, require financial reports that clearly indentify whether the elected representatives are administering their responsibilities to

perpetually deliver services to the community they represent. Simply recognising all revenue and expenses in the statement of financial performance, without identifying the operating component or elements, fails this test.

My discussion paper on "Business Sustainability, the Accounting Concepts of Capital and Funded Depreciation" is attached as my contribution to the debate.

Graeme Hall-Watson                      April 28th 2013

BCA. (NZ) CPA. (Australia)

Director

Framme Accounting Services

Brisbane, Australia.

Email: framme@bigpond.net.au

#### SPECIFIC MATTERS FOR COMMENT

##### Specific Matter for Comment 3

Do you agree with the definition of revenue?

Yes - but

I agree with the definition of revenue for the public sector. The recognition of revenue in the financial reports must have a matching principle in the public sector, to ensure the operating result and net result can provide the reader with reliable financial indicators of financial performance.

However as mentioned above, it should also identify and define operating revenue and capital revenue. The criteria for the recognition of all revenue is the same, but the need to split it is equally important as it provides the right information to be able to correctly assess the financial performance. Without knowing the total of operating income and operating expenses, the net operating result can not be determined. It is this operating result that is the main indicator of whether the opening physical operating capacity has been maintained. This is detailed further in my attached discussion paper.

Operating revenue may be defined as that which is received for the purpose of funding operating expenses recognised in the period.

Capital revenue may be defined as that which is received for the specific purpose of funding the acquisition or construction of capital assets. The restriction is imposed as a condition by the funds provider. These would include capital grants and capital contributions that are restricted to be expended on capital assets. Capital income that will be disclosed in the statement of financial performance will include a profit that arises from the disposal of capital assets or a gain that arises

from a change in value of capital assets that must be recognised through the statement of financial performance. The value of physical assets contributed to the entity is recognised as capital revenue.

#### Specific Matter for Comment 4

Do you agree with the definition of expenses?

Yes - but

I agree with the definition of expenses for the public sector. The recognition of expenses in the reporting must have a matching principle in the public sector to ensure the operating result and net result can provide the reader with reliable financial indicators of financial performance.

However as mentioned above, it should also identify and define operating expenses and capital expenses. The criteria for the recognition of all expenses is the same, but the need to split it is equally important for the reader to assess the correct financial performance. Without knowing the total of operating income and operating expenses, the net operating result can not be determined. It is this operating result that is the main indicator of whether the opening capital capacity has been maintained.

Operating expenses may be defined as recurrent outflows incurred for the purpose of delivering recurrent services to the community and includes the cost of consumption of the service potential of the capital assets used in the delivery of those services (depreciation).

Capital outflows may be defined as expenditures that directly affect the net capital asset value of the entity. This would therefore include funds used to pay down capital loans or debt. Capital expenses that will be disclosed in the statement of financial performance will include the loss from the disposal of capital assets and changes in value of capital assets that gives rise to a loss.

#### Specific Matter for Comment

#### 4. Revenue and Expenses

##### Definitions

#### 4.7 Financial Performance

I disagree with the statement that "The difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance"

In the public sector and in particular the local government sector, it is the difference between the operating income and operating expenses that is the indicator of financial performance not the net result that arises from deducting total expenses from total revenue. Unless the opening capital capacity has been maintained as measured by an operating surplus or deficit, a profit has not been made in the period.

For example, the inclusion of the revenue arising from the recognition of a physical asset in the measurement of financial performance, can turn an operating deficit into a net surplus. The underlying operating deficit which indicates a reduction in the entity's physical operating capacity is totally masked by the inclusion of this capital revenue when assessing the financial performance. The recognition of physical assets in a reporting period adds to opening capital value in the next reporting period, but does not add to the financial performance in the current period.

In the statement of financial performance there should be recognition firstly of the operating income and expenses arriving at a net operating surplus or deficit. After the operating result the capital income and expenses should be recognised arriving at a net result for the period. The net result has little significance in the measurement of financial performance in local government.

The measurement of management's financial performance should be gauged on whether the entity's opening physical operating capability has been maintained. This is a strong indicator of financial sustainability. The net result does not provide the reader with this information.

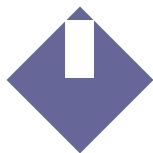
Your faithfully,

Graeme Hall-Watson

Director

Framme Accounting Services

Email: [framme@bigpond.net.au](mailto:framme@bigpond.net.au)



**The Japanese Institute of  
Certified Public Accountants**

4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan  
Phone: 81-3-3515-1129 Fax: 81-3-5226-3356  
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April 30, 2013

Ms. Stephenie Fox

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

***Comments on the Conceptual Framework Exposure Draft 2  
“Conceptual Framework for General Purpose Financial Reporting by  
Public Sector Entities:  
Elements and Recognition in Financial Statements”***

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Conceptual Framework Exposure Draft 2 (CF-ED2), “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements,” as follows.

**I. Comments on Specific Matters**

**Specific Matter for Comment 1:**

Do you agree with the definition of an asset? If not, how would you modify it?

We agree with the proposed definition of an asset.

Paragraph BC 20 of the CF-ED2 states that, in view of the support expressed by many



respondents to CF-CP2, the IPSASB agrees with the view that, as an example of a past event that gives rise to an asset, the power of a government to levy taxes and fees must be converted into a right by legal means. Yet, we request the IPSASB to further strengthen its line of reasoning by including a theoretical support for this view.

**Specific Matter for Comment 2:**

- (a) Do you agree with the definition of a liability?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

We agree with the proposed definition of a liability.

Paragraph 3.11 of the CF-ED2 provides four examples of early points in implementing a program or service at which a liability may arise. In addition to the early points exemplified in paragraph 3.11, we suggest that potential points at which a liability may arise, similar to those provided in paragraph 2.8 for a case of assets, should also be provided as follows:

- Claimants meet the eligibility criteria for the service to be provided; and
- Claimants demand that service be delivered.

**Specific Matter for Comment 3:**

Do you agree with the definition of revenue? If not, how would you modify it?

We agree with the proposed definition of revenue.

**Specific Matter for Comment 4:**

Do you agree with the definition of expenses? If not, how would you modify it?

We agree with the proposed definition of expenses.

**Specific Matter for Comment 5:**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

We generally agree with all of the proposals put forward for deferred inflows and outflows in CF-ED2.

However, we believe that deferred inflows and outflows should not be provided as symmetric elements, since they differ in some aspects, particularly regarding control by an entity over its resources.

That is, since a deferred inflow is “an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period” as stated in paragraph 5.1 of the CF-ED2, an inflow of service potential or economic benefits is controlled by an entity. On the other hand, in view of the definition in paragraph 5.2 that a deferred outflow is “an outflow of service potential or economic benefits provided to another entity or party for use,” we cannot really say that, in a case of a deferred outflow, an entity controls a service potential or economic benefits.

Therefore, with respect to a use of a deferred outflow, the IPSASB should clarify that a transferor would be able to require a transferee to use the transferred resources in the specified future reporting periods.

**Specific Matter for Comment 6:**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you

think they should be?
-----------------------

- (a) We support the IPSASB's efforts to define the term 'net financial position.'

However, the term could be misleading in that it reflects deferred items in the calculation of difference between assets and liabilities. That is, deferred items are recorded in the statement of financial position to be recognized in revenue or expenses in the future reporting periods. Accordingly, they do not present the 'financial position' of an entity, and thus IPSASB should reconsider the definition of the term itself.

As an alternative way to define the term, we propose that net assets and net deferred flows be defined as items comprising net financial position, and the definition of ownership interest and minority interests be given in relation to net assets.

- (b) and (c)

We agree with the proposals.

- (d) We believe that the Framework should define ownership interests.

As a premise for setting the definition of ownership interests, we also suggest that the IPSASB considers the scope of ownership for public sector entities.

For example, in public sector accounting, some believe that those who are forced to provide resources, such as taxpayers, should also be considered as the owners of public sector entities. By considering the scope of ownership of public sector entities, together with the definition of ownership interests, we believe that the IPSASB would be able to establish consistent accounting treatments.

#### Comments on paragraph BC47

The statement on net financial position in the latter part of paragraph BC47 seems to be an explanation for net assets.

We are of the view that a positive net financial position resulting from deferred outflows will not represent "the net resources available for providing goods or services in future periods," since an entity does not have control over those resources. Rather, deferred outflows will result in costs in future reporting periods.

On the other hand, deferred inflows mean that an entity has resources that can be used

in specified future reporting periods. Therefore, even if the entity is currently in a negative net financial position as a result of recognizing deferred inflows, the entity has resources that will be recognized as revenue in future periods.

**Specific Matter for Comment 7:**

Do you agree with the discussion on recognition? If not, how would you modify it?

We agree with the discussion on recognition.

We believe that derecognition can also be applied to deferred inflows and deferred outflows. We recommend for the IPSASB to clarify that the case “[W]hen the specified future reporting period occurs,” stated in paragraph 5.5, will not be within the meaning of the derecognition of deferred inflows and deferred outflows.

## II. Other Comments

We believe that the statement on deferred inflows and outflows should come immediately after the explanation about assets and liabilities in the CF-ED2. Then, details on revenue and expenses should be provided, as revenue and expenses contain deferred inflows and outflows in their definitions.

Yours sincerely,

Naohide Endo  
Executive Board Member  
Public Sector Accounting and  
Audit Practice  
JICPA

Tadashi Sekikawa  
Executive Board Member  
Public Sector Accounting and  
Audit Practice  
JICPA

UNITED NATIONS SYSTEM



SYSTEME DES NATIONS UNIES

**Chief Executives Board  
for Coordination**

**Conseil des chefs de secrétariat  
des organismes des Nations Unies  
pour la coordination**

**SUBMISSION: Conceptual Framework Exposure Draft 2: *Elements and Recognition in Financial Statements***

30 April 2013

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

**Conceptual Framework Exposure Draft 2**

1 Thank you for the opportunity to comment on Conceptual Framework Exposure Draft 2 (CF-ED2), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*.

**United Nations System Task Force on Accounting Standards**

2 The United Nations System Task Force on Accounting Standards (Task Force) appreciates the work that the IPSASB is carrying out in developing accounting standards for public sector entities, including international organizations such as those making up the United Nations system. The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The comments below represent the views of Members of the Task Force. The individual organizations that provided comments on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual responses in Appendix 2.

### **General Comments**

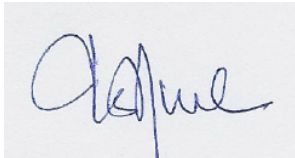
3 We support IPSASB's efforts in developing the Conceptual Framework, which establishes parameters for financial reporting under IPSAS and clarifies concepts not previously explicitly covered by the Standards. We note, however, that discussion in the CF-ED2, including majority of examples, focuses mainly on specific attributes and challenges of governments, making it less useful and applicable for use by other public sector entities.

### **Specific Matters for Comments**

4 Our detailed comments on the specific matters for comment identified in CF-ED2 are attached in Appendix 2.

5 Should you have any queries on our comments, please contact Ms. Dinara Alieva, Financial Analyst, System-wide IPSAS Project Team at [alievad@un.org](mailto:alievad@un.org).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chandramouli Ramanathan', is shown within a light gray rectangular box.

Chandramouli Ramanathan

Deputy Controller, United Nations &  
Chair, Task Force on Accounting Standards

[ramanathanc@un.org](mailto:ramanathanc@un.org)

## APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

Task Force Members from the following organizations reviewed this submission and concurred with its contents.

Organisation	Agree (Disagree)
1. FAO	Agree
2. IAEA	Agree
3. ICAO	Agree
4. ILO	Agree
5. IMO	Agree
6. ISA	Agree
7. ITU	Agree
8. PAHO	Agree
9. UN	Agree
10. UNAIDS	Agree
11. UNDP	Agree
12. UNESCO	Agree
13. UNFPA	Agree
14. UNHCR	Agree
15. UNICEF	Agree
16. UNIDO	Agree
17. UNOPS	Agree
18. UNRWA	Agree
19. UPU	Agree
20. WFP	Agree
21. WHO	Agree
22. WIPO	Agree
23. WMO	Agree
24. WTO (Tourism)	Agree
25. UNWomen	Agree



## **APPENDIX 2 - CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS (CF-ED2 or Exposure Draft)**

In response to the IPSASB's request for comments on these Specific Matters please find below comments of the Task Force:

### **Specific Matter for Comment 1**

Do you agree with the definition of an asset? If not, how would you modify it?

#### **Response:**

The Task Force agrees with the proposed definition of an asset and notes that it is generally in line with definition of an asset included in IPSAS 1 as well as Task Force comments previously provided on definition of an asset proposed by the Conceptual Framework Phase 2 Consultation Paper (CF-CP2).

The discussion on an asset being a resource appears to cover more ground than the definition of an asset and includes, among other dimensions, benefits that arise directly from the resource itself or from the rights to the resource (para. 2.2). Basis for Conclusions (BC) refers to current rights as a type of intangible asset (para. BC3). It also includes an example of the "right to require other parties to perform in a certain way, by, for example, making payments or providing goods and services in a manner specified by the entity" (para. BC4). A sovereign government has rights to require various parties operating within its jurisdiction to act in a certain way, which may or may not meet definition of benefits related to an asset. However there are also other scenarios in the public sector which are not considered in CF-ED2. For example, UN system organizations routinely engage external partners with specific expertise in implementing projects in various locations around the world. Agreements with implementing partners typically prescribe a manner in which goods and/or services should be provided to beneficiaries. When CF-ED2 describes the concept of the right to require other parties to perform in certain way it draws no distinction between sovereign rights of governments and a right to require other parties to perform in a certain way through routine contractual engagements. However the latter scenario may not give rise to a benefit and hence should be clearly differentiated in the CF-ED2.

The CF-ED2 also refers to entity's rights to benefits, including use of an external party's resource to provide services, for example, leases (para. 2.2). The Task Force is of the view that a more detailed discussion of a resource which embodies an entity's rights to a benefit would be helpful. More specifically in terms of leases, a decision of whether or not an asset exists for a lessee on the reporting date should be determined based on whether or not a lessee controls the asset at that date rather than on the fact that a lessee has a right to benefits associated with use of a leased resource. In this regard, it is noted that CF-ED2 refers to control of individual benefits from use of the resource as opposed to control over the resource in its entirety for determining whether an asset exists. This

proposed concept is discussed further in the following section of the submission on control of an asset.

In addition, while governments typically have rights to a wide range of resources, use of external resources by other public sector entities are usually based on contractual arrangements between two willing parties. Such arrangements may be of non-exchange nature and/or involve nominal fees, but they may not necessarily constitute a right (or entitlement) to receive benefits from external resources.

On a closely related matter, the Task Force submission on CF-CP2 raised a question of recognition and measurement of donated rights to use assets and peppercorn rent, an area not yet covered by an IPSAS standard. The Task Force believes that IPSASB should consider reviewing these types of arrangements in detail in light of the proposed recognition of leases in CF-ED2.

### *Control of an asset*

CF-ED2 builds on definition of control as the ability to exclude or regulate the access of others to the benefits of an asset (IPSAS 23) by listing three additional indicators. While (a) legal ownership has always been a traditional indicator, indicators (c) and (d) (para. 2.7) represent a much more defined version of the previously used concept that control of an asset “arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives” (IPSASB Handbook 2012, Glossary of Defined Terms). CF-ED2 states that the entity should have “means to ensure that the resources are used to achieve its objectives” and should have an “enforceable right to service potential or economic benefits arising from a resource”. However it was noted that while the Basis for Conclusions discusses indicators (a) and (b) in detail it does not analyse indicators (c) and (d) and the impact which this more defined approach is expected to have on determining controlled assets in public sector. The Task Force is of the view that these indicators are important and that the Board should be in a position to provide some principles-based guidance thereon.

It is important to note that the Basis for Conclusions considers ability to access a resource to be a solid indicator of control only if accompanied by the ability to deny or restrict the access of others to the resource (para. BC 14).

The Basis for Conclusions also warns against erroneous application of control to a “resource in its entirety and not to individual benefits that accrue from the resource” (para. BC 11). It is imperative that the Board expands discussion of this proposed concept in interpretation of control of an asset and its practical application and relocates it to the main body of the CF-ED2 due to its significance. It is also anticipated that recognition and measurement of assets based on the proposed approach would be very complex, especially in absence of clear guidance in CF-ED2, while benefits of the proposed approach are not identified in the Exposure Draft. Due to these reasons the Task Force is not able to support this proposal at this time.

### *Past event*

The discussion acknowledges a newly introduced concept that a right to a resource can give rise to a benefit and through it to an asset. However it then goes on to refer to the power to tax or to issue licenses as an example of “powers and rights that other non-public sector entities do not have” (para. 2.8). This new dimension of having ‘exclusive rights’ to regulate a process or an activity and its implications for definitions of past event and of an asset in general should be further discussed in CF-ED2.

There also appears to be an inconsistency between discussion in IPSAS 23 (para. 34) which states that “transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer”, whereas CF ED-2 in its main body of text proposes that “general ability to tax” or “establishment of a power through a statute” can be considered as past events for recognition of an asset (para 2.8). At the same time, the Basis for Conclusions (para. BC 20) clarifies that “the IPSASB considered that a government’s inherent powers do not give rise to assets until these powers are exercised”. This clarification has to be included in the main body of the CF-ED2 to correct the above highlighted inconsistency.

### **Specific Matter for Comment 2**

(a) Do you agree with the definition of a liability? If not, how would you modify it?

#### **Response:**

The Task Force notes that the proposed definition of a liability generally falls in line with definition of liabilities promulgated by IPSAS 1 as well Task Force comments on proposed definition of a liability in the CF-CP2, hence it is acceptable to the Task Force.

It was noted that the Basis for Conclusions (paras. BC 21-26) discusses such types of obligations as conditional and unconditional obligations, stand-ready obligations and performance obligations, but these are considered by the IPSASB to fall outside the scope of the Conceptual Framework. The Task Force concurs with this approach. The Task force refers to its comments on CF-CP2 where it recommended to the IPSASB to take a conservative approach while exploring the possibility of expanding types of obligations which can be classified as liabilities. The Task Force submission stated that “many public sector organizations carry out tasks that directly impact lives of millions of people in various regions of the world, and hence they are subjected to increased level of scrutiny from donors, recipients and general public. These organizations also often have to divert their activities and resources from initial plan to address people’s needs triggered by unexpected events and problems, like natural disasters or new areas of military conflict. It will not be possible or practical to have a comprehensive list of all obligations of organizations of such scale while recognizing and measuring these liabilities completely and reliably, with reasonable cost/benefit balance. Therefore, the position of the Task Force is that IPSASB should only consider introduction of new or expanded concepts to

this element of financial statements if there is an intention to supplement them with in-depth analysis for all preparers of GPFs who wish to conform to the Conceptual Framework”.

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

**Response:**

IPSASB considers the term “constructive obligation” used in standard setting literature globally, including IPSAS, to be “difficult to interpret and apply in the public sector context” (BC 21). Therefore the Board proposes to focus on defining legal and non-legal binding obligations as a more straightforward approach.

Legal obligation is a well established concept which, according to IPSAS 19, “is an obligation that derives from:

- (a) A contract (through its explicit or implicit terms);
- (b) Legislation; or
- (c) Other operation of law.

It was noted that the CF-ED2 also proposes to treat as legal those binding obligations which are created in jurisdictions where government and public sector entities cannot have legal obligations but where there are alternative processes with equivalent effect.

Constructive obligation, as defined by IPSAS 19, “is an obligation that derives from an entity’s actions where:

- (a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities” (para.18).

In defining non-legal binding obligation the CF-ED2 borrowed above definition of the constructive obligation from IPSAS 19 and added a third attribute, as follows:

“(c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities” (para. 3.10)

As IPSASB acknowledged that the term “constructive obligation” was difficult to interpret and apply in a public sector, the Task Force is not convinced that by adding a third attribute to the definition the CF-ED2 resolved the problem with the application of the term “constructive obligation” or “non-legal binding obligation” in public sector. In addition, the dimension of having ‘no realistic alternative to avoid settling the obligation’ is not completely new and is currently used in the Glossary of Defined Terms as well as

in IPSAS 19 to define the “obligating event” (para. 18). The same dimension is also part of the new definition of a liability proposed by the CF-ED2 and appears to be the only rephrased part of both definitions when compared to existing IPSASs. This increases the importance of understanding the augmented role of this dimension in the Conceptual Framework and its application in the public sector.

CF-ED 2 attempts to include indicators that are likely to impact on decision whether or not the entity has little or no realistic alternative to avoid outflow of service potential or economic benefit, but the discussion is mainly focused on examples applicable to governments and remains at a highly theoretical level, which brings preparers of the GPFs back to the same problem as encountered with the use of the term “constructive obligation”.

The Task Force notes that assessment of enforceability of legal and non-legal binding obligations has not been sufficiently addressed by the CF-ED2 and recommends that this issue be rectified. The CF-ED2 would also benefit from inclusion of examples of legal and non-legal binding obligations applicable to public sector entities other than governments.

### **Specific Matter for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

#### **Response:**

The Task Force acknowledges similarities between the definition proposed by CF-ED2 as compared to the definition of revenue used in IPSAS 1 and notes that main difference between the definitions relates to the concept of changes in deferred inflows and outflows. New definition also excludes reference to inflow of economic benefits or service potential as attribute of the revenue, which broadens the definition and does not limit it to specific types of activities associated with main operations of an entity. As further discussed in the Basis for Conclusions, the IPSASB took the view that inflows and outflows related to activities outside of ordinary course of operations (for example, gains and losses) “do not differ from other forms of revenue and expenses, because they both involve net increases or decreases of assets and/or liabilities” (para. BC 38).

The Task Force agrees with the proposed definition of revenue, but would like to reserve the right to present other types of revenue and expenses on the face of financial statements as well as in the notes thereto should organizations consider that such disclosure would provide useful information to users of their financial statements. The IPSASB is requested to consider surrendering the decision on presentation of other types of revenue and expenses to preparers of the GPFs while formulating views for Phase 4 of the Conceptual Framework “Presentation in General Purpose Financial Reports”.

Although definition of revenue has not been significantly altered, it is clear that introduction of concept of deferred inflows and outflows in definition of the revenue is

likely to have a significant impact on recognition and presentation of revenues and expenses in financial statements of entities which currently conform to requirements of IPSAS 23 which does not provide for recognition of inflows based on the period to which they relate.

The IPSASB would need to conceptually bridge the approach to revenue recognition proposed in CF-ED2 with that of IPSAS 23 to support preparers of the GPFS who wish to conform to both pronouncements of the Board.

The United Nations, a member of the Task Force, does not agree with definition of revenue proposed by the CF-ED2 as it does not sufficiently explain significance of deferred inflows to revenue recognition.

#### **Specific Matter for Comment 4**

Do you agree with the definition of expenses? If not, how would you modify it?

The Task Force agrees with the proposed definition. Please see response to SMC 3 for further details.

Similar to the comment on SMC 3 above, the United Nations does not agree with definition of expenses proposed by the CF-ED2 as it does not sufficiently explain significance of deferred outflow to recognition of expenses.

#### **Specific Matter for Comment 5**

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

#### **Response:**

The Task Force supports in principle the proposal of CF-ED2 to define deferred inflows and outflows as separate elements of financial statements and takes note of the reasons that led the IPSASB to this decision as discussed in the Basis for Conclusions (paras. BC 40-43). However, the concept of deferred inflows and outflows should be explained in more detail, including addition of examples applicable to a wide range of public sector entities.

Some members of the Task Force note with interest alternative view of Ms. Jeanine Poggiolini and are inclined to support the IPSASB member's view that deferred inflows and outflows should be included in the definitions of revenues and expenses.

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

**Response:**

- (i) The Task Force takes note of the discussion of risks and benefits of restricting definitions of deferred inflows and outflows to non-exchange transactions presented in the Basis for Conclusions (paras. BC 44-46) and has no reservations against the proposed approach. In addition, revenue from exchange transactions is regulated by IPSAS 9 which addresses ‘applicability’ of the revenue to the reporting period through its recognition based on the stage of completion of underlying transaction/activity.
- (ii) The Task Force agrees with proposed definitions of deferred inflows and outflows. It was noted that although the CF-ED2 states that conditional revenues or expenses cannot be classified as deferred inflows or outflows, the definition of the latter does not include reference to conditionality of revenue or expense.

**Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

**Response:**

The Task Force considers the term ‘net assets’ and its definition to be clear, customary and acceptable to the majority of preparers and users of GPFS.

The term ‘financial position’ seems to have emerged only as a result of introducing concept of deferred inflows and outflows and the Task Force is not convinced that it should be defined as a specific term due to its limited applicability. It is noted that the IPSASB is of the view that financial position may be used to assess availability of net resources of the reporting entity in future periods. However this view does not take into account current period revenues and expenses which may represent significant portion of transactions during the reporting period, which is common for public sector organizations other than governments. Such current period revenues may include reclassification of liabilities upon compliance with related conditions in the reporting period. Therefore, except for cases when deferred inflows and outflows constitute majority of transactions of the reporting entity, which is presumably more relevant to governments than to other public sector entities, use of financial position on its own for assessing future economic viability of preparers of the GPFS would not be appropriate.

Members of the Task Force believe that introduction of the term ‘financial position’, as currently proposed by the CF-ED2, may unnecessarily complicate presentation of the



Statement of Financial Position and is unlikely to enhance usefulness of information presented in the GPFS. It was also noted that the concept of 'financial position', as presented by CF-ED2, is not promulgated by other international financial reporting frameworks.

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

**Response:**

The Task Force does not object to the decision to define ownership contributions and distributions as separate elements of financial statements.

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

**Response:**

The Task Force has no reservations in relation to the proposed definitions of ownership contributions and distributions. However the related discussion in the CF-ED2 does not seem to cover the broad spectrum of arrangements in the public sector related to injection of resources to the entity as well their subsequent distribution. One example that can be used to illustrate the point is the relationship between the United Nations and the Member States, where annual contributions of the latter are recognized as revenue by the United Nations, but should the United Nations be wound up or get restructured, the Member States are likely to receive its net assets or at least decide on the ultimate distribution of such net assets. Hence it might be useful to include in CF-ED2 more practical examples which would be relevant to international organizations and public sector entities other than governments.

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

**Response:**

The concept of ownership interest should only be defined if it is expected that it will be applicable to majority of GPFSs preparers.

**Specific Matter for Comment 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

**Response:**

It was noted that the CF-ED considers that use of standardized threshold criteria to assess existence uncertainty may not meet some of the qualitative characteristics of GPFS. The IPSASB therefore concluded that “all available evidence should be assessed in determining whether an element exists and that uncertainty about the flows of service potential or economic benefits should be taken into account in measurement” (para. BC 55). The Task Force is of the view that discussion on recognition in the CF-ED2, although interesting and overall useful, addresses recognition mostly on theoretical level and should be supplemented by examples and more practical guidance for each element of the GPFS.



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Date 30 April 2013  
Our ref 0430.mju.IPSASB  
Pages 1 of 5

Submitted electronically

Dear Stephenie Fox  
**IPSASB Exposure Draft CF-ED2**

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

The Auditor General for Wales welcomes the opportunity to comment on this IPSASB Exposure Draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- The Welsh Government;
- Welsh Government sponsored and other related bodies;
- Local government bodies in Wales;
- Local health bodies in Wales; and
- Certain publicly owned companies.

We are fully supportive of the development by IPSASB of a conceptual framework to underpin the development of a comprehensive and high quality suite of financial reporting standards for the public sector.

We welcome the next stage of the development of the conceptual framework including the statement in Paragraph 1.1 that the Exposure Draft proposes definitions of elements to be used only for general purpose financial statements. We consider that IPSASB should focus initially on financial statements before addressing the other aspects of financial

**Our reference:** 0430.mju.IPSASB

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reporting (such as prospective financial information) that are covered by the conceptual framework.

While we support the vast majority of proposals in the ED we do not agree with the proposal that deferred inflows and deferred outflows should be included in the list of elements. We would prefer an approach where deferrals are recognised only where they meet the definition of an asset or liability, and are treated as assets or liabilities as appropriate.

We set out in Appendix 1 our response to the specific matters for comment.

I hope that you find our submission appended to this letter useful. If you have any queries regarding our response, please contact my colleague Iolo Llewelyn (e-mail: [iolo.llewelyn@wao.gov.uk](mailto:iolo.llewelyn@wao.gov.uk) or telephone: 07766 505189).

Yours sincerely,



**Mike Usher**  
**Group Director – Technical**

## Appendix 1: Response to Consultation Questions

Question	Response
1. Do you agree with the definition of an asset? If not, how would you modify it?	We agree with the definition of an asset as set out in the Exposure Draft.
2(a). Do you agree with the definition of a liability? If not, how would you modify it?  (b). Do you agree with the description of non-legal binding obligations? If not, how would you modify it?	(a) We agree with the definition of a liability as set out in the Exposure Draft.  (b) We recognise the difficulties that the IPSASB has identified with the use of the term 'constructive' in the public sector and therefore agree with the description of non-legal binding obligations
3. Do you agree with the definition of revenue? If not, how would you modify it?	We agree with the definition of revenue. However see our comments on question 5(a) where we have some concerns about defining deferred inflows as separate elements.
4. Do you agree with the definition of expenses? If not, how would you modify it?	We agree with the definition of expenses. However see our comments on question 5(a) where we have some concerns about defining deferred outflows as separate elements.
5(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?  (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the: (i) Decision to restrict those definitions to non-exchange transactions? If not, why not? (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?	(a) In our response to the IPSASB Consultation Paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</i> (December 2010) we stated that we did not support the proposal to define deferred inflows and outflows as separate elements and prefer an asset and liability model: our position remains unchanged.  Our preference is for an asset and liability model. If, as a consequence, material income and expenditure is recognised in respect of amounts to be

Our reference: 0430.mju.IPSASB

Question	Response
	<p>applied in future years, this could be disclosed by analysis of the net financial position on the face of the statement of financial position or by means of a note (any requirement for these options should be specified in a future IPSAS).</p> <p>(b) As stated above, our preference would be to use an asset and liability model and not separately define deferred inflows and outflows. However, if the proposed definitions are adopted, we agree with the definitions and the decision to restrict the use of these to non-exchange transactions to minimise the risk of inappropriate use of deferred inflows/outflows to manipulate the financial position of entities.</p>
<p>6(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or the definitions?</p> <p>(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?</p> <p>(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?</p> <p>(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?</p>	<p>(a) We agree with the definition of net assets and, as the ED stands, the definition of net financial position. However, if deferred inflows and outflows were not separately defined (i.e. if these transactions were considered to be assets or liabilities), it appears to us that net assets and net financial position would be the same.</p> <p>(b) We agree that ownership contributions and distributions should be defined as elements.</p> <p>(c) We agree with the definitions of ownership contributions and distributions and agree that it is important that transactions with 'owners' such as non-exchange funding transactions should be distinguished from contribution transactions such as resource injections to remove deficits where entities have statutory requirements not to exceed the resources allocated to it.</p>

Our reference: 0430.mju.IPSASB

Question	Response
	(d) It would be useful to provide an overall definition of what an 'ownership interest' is, since in the public sector particularly, this may not be an equity instrument.
7. Do you agree with the discussion on recognition? If not, how would you modify it?	<p>We agree that recognition can be defined as incorporating items meeting the definition of elements into the financial statements. We also agree that there are two elements to this, <b>what value</b> to recognise items at (measurement uncertainty) and <b>when</b> to recognise them (existence uncertainty).</p> <p><b>'What value'</b> is covered by paragraph 7.5 and we agree that it is necessary to be able to attach a monetary value to items and where this cannot be achieved, no item should be recognised.</p> <p><b>'When'</b> is covered by paragraphs 7.3 and 7.4 'Existence Uncertainty'. We consider that a threshold approach would provide more clarity and a suitable threshold for recognition would be 'probable' i.e. 'all available facts and circumstances should be taken into account to determine if it is probable that the element exists (i.e. the definition of the element has been met) at the reporting date.</p>





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Ms Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Sir/Madam

### **Exposure Draft 2 “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements”**

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the abovementioned Exposure Draft.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries about accounting and reporting issues. The committee comprises of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC recommends that when developing the conceptual framework, the IPSASB work closely with the International Accounting Standards Board (IASB) and aim to create a uniform conceptual framework, but the IPSASB should consider issues that are specific and unique to the public sector.

HoTARAC believes that having a common conceptual framework for both the private and public sectors allows comparability and consistency of financial reporting between the two sectors.

HoTARAC does not support the identification of deferred inflows and deferred outflows as separate elements in the financial statements. The proposed approach of defining deferred inflows and outflows would not faithfully represent the economic phenomena and would also mislead users' understanding of the entity's financial performance. Further, it appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.

HoTARAC strongly recommends that IPSASB reconsider alternative options, in particular a presentational approach along the lines articulated in the alternative view of Ms.Poggiolini, of dealing with deferred inflows and deferred outflows through note disclosure or other forms of communication. This approach would strengthen the understanding and communication to users of financial statements and hence, meet the objectives of financial reporting.

Comments by HoTARAC on the Specific Matters for Comment in the Exposure Draft are attached.

If you have any queries regarding HoTARAC's comments on this Exposure Draft, please contact Steve Mitsas from the Victorian Department of Treasury and Finance on +61 3 9651 2645.

Yours sincerely



Grant Hehir  
**CHAIR**  
**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY**  
**COMMITTEE**

29 April 2013

ATTACHMENT - HoTARAC comments

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

**General comments**

HoTARAC notes that significant progress has been made since the release on the Consultation Paper on Phase 2 of the *Conceptual Framework*. HoTARAC agrees with many of the decisions reached to date, in particular:

- specifying that this Framework section only relates to elements used in GPFSs rather than the broader GPFRs;
- including service potential in the definition of an asset and providing a definition of service potential in the framework;
- associating an asset with an entity through the control concept;
- including non-legal binding obligations in the definition of present obligation;
- covering the definition of elements, their recognition and derecognition; and
- the recognition of various ownership interests that may arise in the public sector context.

However, HoTARAC has significant concerns with a number of the proposals in the current exposure draft, the most important of these being the inclusion of deferred inflows and deferred outflows as elements of financial statements.

HoTARAC is of the view that the proposed approach of defining deferred inflows and outflows would not faithfully represent the economic phenomena and would also mislead users' understanding of the entity's financial performance. Further, it appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements. Additionally no convincing arguments are advanced for their use, in particular whether there is a specific public sector issue to diverge from International Financial Reporting Standards (IFRS). IPSASB needs to be conscious that creating a different definition of elements would likely confuse report readers and is required only when there are significant benefits to do so. The case for the use of deferred inflows and outflows has not been sufficiently demonstrated by the IPSASB.

If IPSASB still consider the need to provide deferred inflows and outflows information essential, the alternative approach presented in AV11 of presentation and disclosure would be preferable to creating separate elements and changing the well understood definition of revenue, expense and net financial position.

HoTARAC reiterates its preference for the IPSASB and International Accounting Standards Board (IASB) to work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. Even if this would delay progress from an IPSASB perspective, HoTARAC believes such convergence would result in superior long-term outcomes for public sector entities globally. The greater the potential for divergence between pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of-government reporting entity.

ATTACHMENT - HoTARAC comments

HoTARAC recommends that the IPSASB communicate to constituents how and when it will address this obvious tension between standard-setter frameworks under which various public sector entities might operate.

HoTARAC recommends that when developing the conceptual framework, the IPSASB work closely with the IASB and aim to create a uniform conceptual framework. Divergent frameworks will prove especially difficult to apply in countries such as Australia that promote a transaction neutral approach.

HoTARAC believes that having a common conceptual framework for both private and public sectors allows comparability and consistency of financial reporting between the two sectors.

HoTARAC notes the IPSASB's comment on page 6 of the Exposure Draft that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, no reasons have been given as to why the IASB's conceptual framework is so fundamentally unsuitable for public sector entities, that development of a separate conceptual framework for such entities is warranted. HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework - particularly if alignment (to the degree possible) with IFRS is to remain an objective.

It is also noted that the IASB is currently deliberating on the definition of the elements in the Framework. In HoTARAC's view, the IPSASB should use the IASB definitions, unless there is a strong justification for departure.

Other comments:

HoTARAC strongly recommends that the size of a transaction should not influence its reporting as suggested in BC7 in relation to executory contracts. Executory contract components should be reported by each party when these meet the element definition and the recognition criteria.

It would be useful if IPSASB could provide an example of a conditional obligation that creates a liability as stated in BC 22.

HoTARAC also supports IPSASB's conclusions on non-binding obligations stated in BC 31.

Specific matter for Comment 1

1. Do you agree with the definition of an asset? If not, how would you modify it?

HoTARAC does not agree with the proposed IPSASB definition which excludes the concept of 'future' economic benefits (which appears to have been extracted and incorporated into the new definition of 'deferred inflows' to account for non-exchange transactions). It is not clear if this is intentional to allow for the creation of the additional elements, and whether this would create different interpretations of what constitutes an asset under the current generally accepted accounting principles and the proposed IPSASB framework.

Apart from this separation, HoTARAC generally agrees with the definition of an asset subject to the deliberations by the IASB.

As stated in the response to the earlier Consultation Paper (CP) on Phase 2, HoTARAC regards a past event as indicative of an asset, but not an essential feature of the definition. HoTARAC believes the discussion of paragraph 2.8 relates more to the recognition of an asset, rather than meeting the asset definition. HoTARAC commented in its response to the CP on Phase 2 that it supported applying a power view for recognising assets such as the right to tax, where recognition applies at the



ATTACHMENT - HoTARAC comments

point that the government has an enforceable claim on a specific economic resource (for example a taxable event give rise to a claim on a specific taxpayer).

HoTARAC also recommends adding the risks and rewards of ownership as an indicator of control in paragraph 2.7. HoTARAC disagrees with the statement of BC16 that such an approach is incompatible with the control approach. HoTARAC notes that the risks and rewards test is applied to financial instruments under IPSAS 29 *Financial Instruments: Recognition and Measurement* and leases under IPSAS 13 *Leases*, without any apparent inconsistency with the control concept.

One jurisdiction perceives "inflow of service potential" as too restrictive to be a useful characteristic of an asset. Rather the existence of service potential is a characteristic of an asset. To illustrate, roads and road furniture created and maintained by the Commissioner of Main Roads provides service potential to the community per the mandate of government to do these things. However, the Commissioner is not the sole beneficiary of the service potential arising from the asset as implied by the use of 'inflow' in the exposure draft.

Specific matter for Comment 2

(a) Do you agree with the definition of a liability? If not, how would you modify it?

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

(a) The definition of liability appears to align with the key characteristics contained in the current IASB/AASB definition of liability. Hence, HoTARAC generally agrees with the definition of a liability, subject to the deliberations by the IASB. However, HoTARAC suggests removing the qualifier 'little or no realistic alternative to avoid' from the definition of a liability - this qualifier is part of the definition of a present obligation.

HoTARAC recommends that the statement an entity has 'little or no realistic alternative to avoid' should read 'has no realistic alternative' or 'little or no alternative'. HoTARAC is unclear on the reason for using two qualifiers on alternative, as if there was a realistic alternative for avoidance it is unclear how this could be a liability.

Consistent with the views on the definition of an asset, HoTARAC does not consider a past event an essential element of a liability.

Paragraph BC26 states it would not be appropriate to use the term 'performance obligation' in the framework, because such obligations are normally conditional and binding agreements vary between jurisdictions. HoTARAC would point out that performance obligations are not necessarily conditional and this would depend on the underlying contractual obligations. HoTARAC also questions the implication this will have for convergence with the impending IFRS on revenue (which will apply across many jurisdictions), being substantially based on the notion of performance obligations. In addition, BC26 canvasses only the singular basis ("performance obligation" approach) for allocation/recognition of revenue. Whilst this is omitted from the body of the draft framework, including in the Basis for Conclusions predisposes users towards the current IASB conceptual approach to revenue recognition in ED 222 [ED/2011/6]. This is preferable for consistency with the IASB revenue frameworks (except with respect to Leases), but fails to acknowledge other bases for proportional recognition of revenue over sales contract involving the transfer of goods or services over the long-term. Prescription of a singular method appears more appropriate in a revenue standard, rather than a framework document.

Paragraph 3.4 states that " An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way". Where a department is a division of a government, can one government department be obligated to another government department where

ATTACHMENT - HoTARAC comments

both departments are Wholly-Owned Public Sector Entities of the one government? Further to this rhetorical question, one jurisdiction earlier provided feedback on ED 222 noting the inability of non-legal entities to enter into legally binding contracts as evidenced by examples of a body corporate being distinguishable from the relevant department (and the respective legal capacities of those entities). Given the legal capacity of a department and its indivisibility from government, a more robust mechanism than is currently embedded in paragraph 3.4 is necessary.

(b) HoTARAC agrees with the description of non-legal binding obligations and has no further comments.

Specific matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

HoTARAC does not support the proposed definition of revenue as it excludes deferred inflows. Detailed comments regarding deferred inflows and outflows are provided in response to Specific matter for comment 5.

Consistent with the first sentence of BC 34, HoTARAC supports revenue and expenses being determined by changes in assets and liabilities over the period i.e. asset and liability-led approach due to representational faithfulness and objectivity. This is consistent with the approach used under current Australian GAAP, IPSAS, IFRS and GFS.

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

In addition, HoTARAC recommends adding the concept of economic benefits and service potential as part of the definition of revenue i.e.

"Revenue is:

Increases in inflows of economic benefits and service potential during the current accounting period which increases the net assets of an entity, ....."

Specific matter for Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

HoTARAC does not support the proposed definition of expenses as it excludes deferred outflows. Detailed comments regarding deferred inflows and outflows are provided in response to Specific matter for comment 5.

HoTARAC has similar concerns to those made in response to specific matter for Comment 3.

In addition, HoTARAC recommends adding the concept of economic benefits and service potential as part of the definition of expenses i.e.

'Expenses are:

Increases in outflows of economic benefits and service potential during the current accounting period which decreases the net assets of an entity, ....."

ATTACHMENT - HoTARAC comments

Specific matter for Comment 5 – Deferred Inflows/deferred Outflows

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?

(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

(a) HoTARAC strongly disagrees with the decision to define deferred inflows and deferred outflows as elements. HoTARAC believes that the inclusion of deferred inflows and outflows as elements fundamentally redefines the accounting framework accepted across both the public and private sectors, without sufficient justification. As stated in HoTARAC's response to the earlier consultation paper, HoTARAC favours the assets and liabilities-led approach and does not support the identification of deferrals, as these would not faithfully represent the economic phenomena.

As the deferred inflow/outflow approach represents a radical departure from the asset and liability led approach used under IFRS and GFS, HoTARAC would have expected further information and conceptual justification based on the specific public sector issue and public sector user needs to be provided on this proposal, given the resulting divergence from IFRS and GFS.

In paragraph BC40 the IPSASB identified and considered four options to present deferred inflows and deferred outflows in financial statements. HoTARAC does not support the two options of broadening the asset and liability definitions to include deferred inflows and deferred outflows or defining deferred inflows and deferred outflows as separate elements. However, HoTARAC would be prepared to support the presentational approach of dealing with deferred inflows and deferred outflows through presentation or note disclosure or other forms of communication. HoTARAC notes that the use of an 'other comprehensive income' presentation would promote alignment with both IFRS and, by funnelling valuation adjustments through OCI, other economic flows used in GFS. This approach would meet the IPSASB's objective to provide additional information on these transactions, if such information is adequately identified as a public sector user need and strengthen the understanding and communication to users of financial statements and hence, meet the objectives of financial reporting.

BC 40 states that 'Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes.' However this view is not justified at any point, nor is it clear why this approach is uniquely applicable to non-exchange transactions. BC45 suggests the application is narrowed through time restrictions; however, if IPSASB believes that if this is a conceptually robust approach, it should be applied to all transactions.

It is also not clear that narrowing the application of deferred inflows or outflows to non-exchange transactions obviates the concerns in BC 44 of costs being spread inappropriately over a number of reporting periods. For example, the Government may provide a grant to remediate an environmental disaster, with expenditure spread over several periods. Under the proposals, this could be a deferred outflow to the provider, but also a liability for restoration costs under IPSAS 19 *Provisions, contingent liabilities and contingent assets*.

HoTARAC recommends that the IPSASB consider a less radical solution to the issues addressed through the concept of deferred inflows and outflows. An approach that defers the recognition of revenue for non-exchange transactions until the discharge of the performance obligation, in line with the approach the IASB is using for its upcoming standard on revenue, would be preferable. Such an approach would maintain the ongoing process of convergence with IFRS, promote consistency



ATTACHMENT - HoTARAC comments

between the public and private sectors and avoid the need for the introduction of additional elements into the financial statements.

HoTARAC agrees with Prof. D'Amore's comments in the Alternate View that the effects on the concept and display of financial performance, which arises from the proposed treatment of deferred inflows and deferred outflows, and from the new definition of revenue and expenses, are not fully explained in the ED. Based on the definition provided in the ED, revenues include flows that are changes in net assets in the reporting period while some others are simply movements in deferred inflows and vice versa for expenses. All these flows together are balanced to measure the surplus or deficit for the year. HoTARAC agrees with the view that such an approach has a negative effect on faithful representation and the ability of users to assess financial performance by considering its different components, i.e. the elements defined in the ED.

HoTARAC also agrees with the conclusion made by the second member, Ms Poggiolini in the Alternate View, that at a more fundamental level, the concepts outlined in the Conceptual Framework should be based on principles that can be applied to a range of transactions and events. As a consequence, these principles should be transaction neutral and, should not distinguish between exchange and non-exchange transactions. Moreover, the principles should not be designed and defined in such a way that a specific outcome is achieved for a specific group of transactions.

HoTARAC acknowledges that IPSASB is attempting to resolve the perennial public sector issue of multi-year grants by creating the deferred items elements. However as mentioned above, these additional elements, and critical departure from IFRS and GFS, may not be necessary, where applying the presentational approach and performance obligation approach.

(b) No response required.

Specific matter for Comment 6 – Net assets/net fin position, ownership contributions/ownership distributions, ownership interest

(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

(a) HoTARAC agrees with the term net assets, but disagrees with the need to modify the net financial position due to HoTARAC's opposition to deferred items. As stated in our response on the previous consultation paper, HoTARAC considers net assets to be a residual amount; it is not a separate element and a definition is not required. Any ownership (minority) interest on this residual amount can be treated as a sub-class of the residual amount.

Hence, as discussed in the response to Specific Matters for Comment 5, HoTARAC does not support the concept of deferred inflows/outflows. For the same reason, HoTARAC also disagrees with the definition of net financial position, which adjusts net assets for deferred inflows/outflows.

(b) HoTARAC does not disagree with the definitions. However, HoTARAC reiterates the point that it prefers convergence with IFRS rather than a new framework and disagrees with deferred

ATTACHMENT - HoTARAC comments

inflows and outflows and owners' contributions and distributions being defined as additional elements.

(c) No response required.

(d) As mentioned in the response to the previous consultation paper, HoTARAC supports the concept that transactions with owners as owners should be excluded from the performance statement when there is an ownership interest (i.e. equity interest). Given that the IPSASB Conceptual Framework is proposed to be applicable at the entity level as well as at the Government level, the concept of ownership interest should be retained. At the consolidated level, ownership interests are subsumed into net assets (i.e. residual amount). The concept of 'ownership interests' should be broadened and defined but not as part of the element definition.

Specific matter for Comment 7 – Recognition

Do you agree with the discussion on recognition? If not, how would you modify it?

HoTARAC is generally comfortable with the discussion on recognition,

However, HoTARAC believes the IPSASB need to provide clearer guidance on what determines existence certainty and on how to assess measurement certainty. It is also unclear how the concept of control which is part of the definition of an asset is also incorporated as part of the concept of existence uncertainty. In this regard, it is noted that the IASB is currently considering whether to move the reference to control from the definition of an asset to the recognition criteria (refer IASB February 2013 meeting summaries). HoTARAC also suggests materiality be addressed as part of the recognition criteria.

HoTARAC further strongly recommends a threshold of 'probable' be applied to recognition of an element and reliable to the criteria for assessing measurement certainty. Recognition of items that are not at least 'probable' will result in the recognition of items that, on balance, are unlikely to occur and, more frequently than not, would subsequently be derecognised. HoTARAC further recommends 'probable' be defined within the conceptual framework.

HoTARAC support the IPSASB's proposals for derecognition of an item.



**Denise Silva Ferreira Juvenal**

**[rio1042370@terra.com.br](mailto:rio1042370@terra.com.br)**

**Accountant**

**Commentary individual**

**Rio de Janeiro / Brazil**

**Sir**

**Chair and Steering Committee**

**IPASB Technical Director - [stepheniefox@ipsasb.org](mailto:stepheniefox@ipsasb.org)**

**International Public Sector Accounting Standards Board Conceptual Framework  
(CF-ED3)**

**International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA**

**30 April 2013**

**Conceptual Framework for General Purpose Financial Reporting by Public**

**Sector Entities:**

**Elements and Recognition in Financial Statements**

I'm Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS for General Purpose Financial Reporting by Public Sector Entities Elements and Recognition in Financial Statements.

**Guide for Respondents**

The IPSASB welcomes comments on all the proposals in CF-ED2. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to CF-ED2.

**Specific Matters for Comment**

The IPSASB would particularly value comments on the Specific Matters for Comment below.

**Specific Matter for Comment 1**

**Do you agree with the definition of an asset? If not, how would you modify it?**

Yes, I agree with the definition of an asset.

### **Specific Matter for Comment 2**

**(a) Do you agree with the definition of a liability? If not, how would you modify it?**

Yes, I agree with definition of a liability.

**(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

Yes, I agree with the description of non-legal binding obligations.

### **Specific Matter for Comment 3**

**Do you agree with the definition of revenue? If not, how would you modify it?**

Yes, I agree with the definition of revenue.

### **Specific Matter for Comment 4**

**Do you agree with the definition of expenses? If not, how would you modify it?**

Yes, I agree with the definition of expenses.

### **Specific Matter for Comment 5**

**(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?**

Yes, I agree with the decision to define deferred inflows and deferred outflows as elements.

**(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:**

I suggest for the board, observed the discussion of the Government Accounting Standards Board – GASB<sup>1</sup> about non-exchange, I don't know if some points can impact in this proposal, but the results increase this research.

**(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?**

Yes, I agree with decision to restrict those definitions to non-exchange transactions.

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<sup>1</sup>[http://www.gasb.org/cs/ContentServer?c=GASBContent\\_C&pagename=GASB%2FGASBContent\\_C%2FGASBNewsPage&cid=1176162552078](http://www.gasb.org/cs/ContentServer?c=GASBContent_C&pagename=GASB%2FGASBContent_C%2FGASBNewsPage&cid=1176162552078)

**(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?**

Yes, I agree with decisions of deferred inflows and deferred outflows.

**Specific Matter for Comment 6**

**(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**

Yes, I agree with the terms net assets and net financial position and the definitions.

**(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?**

Yes, I agree with the decision to define ownership contributions and ownership distributions as elements.

**(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?**

I agree with the decision to define ownership contributions and ownership distributions as elements. I agree with the definitions of ownership contributions and ownership distributions.

**(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?**

I don't know if definition is clear, but I agree.

**Specific Matter for Comment 7**

**Do you agree with the discussion on recognition? If not, how would you modify it?**

I agree with the discussion on recognition.

Thank you for opportunity for comments this proposal, if you have questions don't hesitate contact to me, [rio1042370@terra.com.br](mailto:rio1042370@terra.com.br).

Yours,

Denise Silva Ferreira Juvenal

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552193493961

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May 3, 2013

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

Dear Ms. Fox:

**Re: Conceptual Framework Exposure Draft 2 – Elements and Recognition in Financial Statements**

Thank you for the opportunity to comment on IPSASB's Exposure Draft 2 on elements and recognition in financial statements.

Ontario's financial reports are based on Canadian Public Sector Accounting Standards (PSAB) which, similar to international standards, focus on broad accounting principles and require professional judgment on the part of the preparers and auditors. Ontario, like most other senior Canadian governments, adopted PSAB as the basis for preparing both the fiscal plan as well as actual results reported against budget in the Province's Public Accounts. The consistent application of PSAB for both planning and reporting purposes supports transparency and accountability in reporting to the public and sound fiscal planning decisions under Balanced Budget legislation.

Given the significance of public sector accounting standards to the overall fiscal accountability and financial reporting frameworks, senior governments in Canada are keenly interested in PSAB's current project assessing its own conceptual framework. Similarly, we hope to offer additional insights and advice to IPSASB for your consideration as you deliberate on the appropriate conceptual framework to serve international public sector reporting objectives. Based on recent experience in Canada, we would also like to highlight the importance for IPSASB to consider



Ms. Fox  
Page 2

practical implementation issues and risks, especially in regards to consistency in interpretation and application of standards, as well as potential impact on public interest.

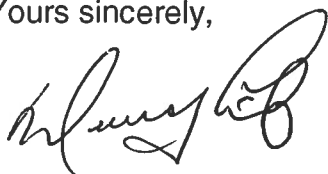
Given the significance of Balanced Budget legislation and the resulting focus on the annual surplus/deficit, senior Canadian governments have voiced concerns to PSAB that a balance-sheet focused conceptual framework may lead to standards that are contrary to the public interest. As part of a Joint Working Group initiative between representatives from PSAB and the Deputy Minister of Finance community, the significance of the balance sheet, statement of operations and the supporting notes as relevant to meeting user needs for transparency, accountability and decision making was acknowledged. At the time, the Joint Working Group contemplated the need to consider deferred debits and credits in situations where asset and liabilities definitions were deemed inadequate.

From an implementation perspective, there may be risks in regards to consistent interpretation and application of deferrals. As a result, this would create a risk of potential negative impacts on government accountability and decision making (e.g. funding decisions based on non-monetary deferred balances). In order to further assess and mitigate such risks and preserve the integrity of the statement of operations, we would suggest that IPSASB provide additional details regarding the nature and reporting criteria for deferrals.

Under Balanced Budget legislation, a key reporting objective for the statement of operations is to portray the economic inflows and outflows associated with providing services in the period. To the extent that deferrals enable the public sector to consistently report revenues and costs in the period(s) in which services and/or benefits were provided, then accountability objectives will be served.

Specific matter responses are included in the attachment to this letter. Thank you again for the opportunity to comment on this Exposure Draft.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Murray Lindo', with a stylized flourish at the end.

Murray Lindo  
ADM and Provincial Controller  
Office of the Provincial Controller Division

Attachment  
c. Greg Orencsak, Associate Deputy Minister

## **ATTACHMENT**

### **Specific Matters for Comment 1:**

#### **Do you agree with the definition of an asset? If not, how would you modify it?**

We agree with the definition of assets, and in particular, that it includes intangibles. We understand that IASB is currently reviewing its element definitions for assets and liabilities. Given that IPSASB's work may be influenced by the outcome of IASB's efforts, we would urge the IPSASB to ensure that its element definitions reflect the unique nature of the public sector, especially as related to non-exchange transactions, and to ensure that its conceptual framework supports financial reporting in the public sector which best serves user needs and the public interest.

### **Specific Matter for Comment 2**

- a) Do you agree with the definition of a liability? If not, how would you modify it?**
- b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

We agree with the definition of liabilities and non-legal binding obligations. In Canada, PSAB has a concept similar to non-legal binding obligations known as constructive obligations. We would like to point IPSASB to the discussion in Section 3200 of the Canadian Public Sector Accounting Handbook as it provides a fulsome discussion on this topic and robust guidance to assist preparers in appropriately interpreting and applying the guidance. Additional guidance as provided by PSAB is considered valuable where non-legal binding obligations are concerned due to the degree of judgment involved.

### **Specific Matter for Comment 3 & 4**

#### **Do you agree with the definition of revenue and expense? If not, how would you modify it?**

We agree with the proposed definition of revenues and expenses as flows relating to the current period, as opposed to the net result of changes in the balance sheet. IPSASB may also wish to consider introducing "gains" and "losses" as a means to address revenues and expenses that are incurred by the government but outside the course of ordinary government activities such as the divestiture of government business enterprises.

### **Specific Matter for Comment 5**

- (i) Do you agree with the decision to define deferred inflows/outflows as elements? If not, why not?**

We agree.

- (ii) If you agree with the decision to define deferred inflows/outflows as elements, do you agree with the:**
  - i. Decision to restrict those definitions to non-exchange transactions? If not, why not?**

We agree. Deferred elements are relatively new concept within a standards-based approach (as opposed to rules-based approach, such as the one used by GASB). It will be difficult for standard-setters, preparers and auditors to anticipate the unintended consequences of the introduction of such an element, unless it has a restrictive definition. It may even be more practical to specifically prescribe exactly what types of transactions meet the definitions of deferred elements to ensure governments and public sector entities in general can accurately plan for their impact and to minimize potential disagreements, especially given Balanced Budget requirements.

**(ii) Definitions of deferred inflows/outflows? If not, how would you modify them?**

We suggest specifically prescribing what qualifies for a deferred element, at least initially, to help implement consistent implementation of this new financial statement element.

**Specific Matter for Comment 6**

**a. Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**

We agree. Net financial position is determined by deducting any deferral balances, thus allowing users of the financial statements to clearly understand a government's longer term financial position.

**b. Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?**

We agree in relation to entity level financial statements.

**c. If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?**

We agree with the introduction of this element. It will help public sector entities account for items such as endowments. However, the word "ownership" seems out of place. Like the new deferred elements that have been introduced, we envision restrictive use of these elements.

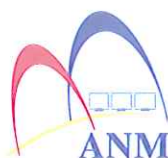
**d. Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?**

No.

**Specific Matter for Comment 7**

**Do you agree with the discussion on recognition? If not, how would you modify it?**

We do not object to this discussion, although it is unclear why measurement uncertainty is a part of a discussion on recognition.



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

6 May 2013

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

Dear Stephanie

**CONCEPTUAL EXPOSURE DRAFT 2 - CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS**

The Accountant General Office of Malaysia ("AG Office") and the Malaysian Institute of Accountants ("MIA") are pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

**General Comments:**

We support the IPSASB's effort in developing a conceptual framework for public sector entities. We are of the view that the conceptual framework should be aligned with the International Accounting Standards Board ("IASB") conceptual framework except for areas that are specific to public sector. The conceptual framework will then support the development of relevant International Public Sector Accounting Standards ("IPSASs") and Recommended Practice Guidelines ("RPGs"). Such approach will assist the users' understanding of general purpose financial reports (GPFRs) who read financial reports across public and private sectors.

Generally, in many parts of the world and specifically in Malaysia, both preparers and auditors of the GPFRs are converse with the International Financial Reporting Standards ("IFRS"). The move to accrual accounting by the Government of Malaysia in 2015 is likely to result in the migration of accountants from private to public sector as they are cognisant with IFRS. The alignment of IPSAS and IFRS would ease mobility of accountants between the two sectors.

The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. Similar to the above, the alignment of IPSAS and IFRS would ease the consolidation of GBEs when preparing the consolidated financial statements of public sector entities.

### **Specific Comments:**

We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.

### **Specific Matter for Comment 6**

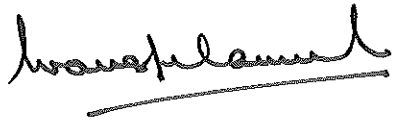
- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

The Exposure Draft sets out how net assets and net financial position are represented by the elements. Based on our understanding of the relationship, the deferred inflows and deferred outflows will be presented below net assets which will then arrive at net financial position. Based on all the elements defined in the Exposure Draft, the relationship between the elements can be represented as follows:

$$\text{Assets} + \text{Deferred Outflows} - (\text{Liabilities} + \text{Deferred Inflows}) = \text{Ownership Contributions} + \text{Accumulated Surplus/Deficit} - \text{Ownership Distribution}$$

We believe net assets should be an element of financial statements which consists of ownership contributions, accumulated surplus/deficit and ownership distributions. As these are part of net assets, both ownership contributions and ownership distributions are no longer the elements of financial statements.

Yours sincerely,



**DATUK WAN SELAMAH WAN SULAIMAN**  
Accountant General of Malaysia  
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Paris, le 07 MAI 2013

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Ms Stephenie FOX

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**Objet:** Response to the Conceptual Framework Exposure Draft 2: Elements and recognition in financial statements

I am writing on behalf of "Direction Générale des Finances Publiques" (DGFIP) to express our views on the mentioned above the Conceptual Framework Exposure Draft 2, "CF-ED2" on elements and recognition in financial statements.

Pour le Directeur général des finances publiques,  
le Chef de service

David LITVAN



## 1. GENERAL COMMENTS

The "Direction générale des finances publiques" (the French Directorate of Public Finances) welcomes the publication of the exposure draft ("the ED"), which takes into account the comments made in our response to the previous Consultation Paper on Phase 2 of the Conceptual Framework.

However, we do not think the ED takes sufficient account of the characteristics specific to the public sector, principally those of the State stemming from its sovereign power. These characteristics are mainly:

- ◆ The predominance of non-exchange transactions, related to the State's mandate as an economic and social regulator. These transactions make up the State's main and regular activity and have no equivalent in the private sector,
- ◆ The nature of its revenue, most of which cannot be equated with the sale of goods or services, but which is related to the State's capacity to levy taxes. This is an asset that goes unrecognised in its accounts,
- ◆ The assets stemming from sovereign power that can result from non-exchange transactions, such as the power to levy taxes, but also from exchange transactions in the case of assets associated with the right to occupy or use public property, such as the radio spectrum. These assets have no equivalent in the private sector, and
- ◆ The State's role as "insurer of last resort".

The specific characteristics of the other public-sector entities are narrower in scope because they do not have the attribute of sovereignty.

The principal difficulty raised in, but not dealt with by, the ED lies not in the definition of these specific assets and liabilities but in the lack of a clear definition of the recognition criteria, which are essential to ensure the consistency, transparency, intelligibility and quality of public accounts over time. In this respect, we do not think the qualitative characteristics set forth in Chapters 1 to 4 of the Conceptual Framework published on 11 January 2013 provide an adequate definition of the recognition criteria.

Regarding non-exchange transactions, the only way to ensure consistency is to clearly separate liabilities from off balance sheet commitments indicated in the notes. This underscores the importance of developing the concept of off balance sheet commitments, and providing a clear definition of them in the Conceptual Framework.

We also think it important to remind you of the following:

- ◆ as is the case for business enterprises, the financial statements of public entities are usually prepared in accordance with the going-concern principle, i.e. on the assumption that the entity will continue to operate (i.e. not be liquidated), and with the accrual principle,
- ◆ the notes are an integral part of the financial statements. Consequently, the information contained in the notes is no less important than that reported in the other components of the financial statements.

According to these principles, the effects of the transactions should be recorded in the financial statements in the period when they occur, even if the related inflows or outflows occur in a different period. Conversely, the financial statements cannot record liabilities representing future expenses that public entities will commit as part of their routine activities. If such an approach were applied to the private sector, a business would have to set aside provisions for production costs that will be committed in future periods, on the grounds that this commitment is necessary to ensure continuity of business.

## **2. COMMENTS ON THE SPECIFIC MATTERS FOR COMMENT**

### **• Specific Matter for Comment 1**

*Do you agree with the definition of an asset? If not, how would you modify it?*

The definition proposed by IPSASB is consistent with the definition of assets used in French accounting standards applicable to the public sector.

As discussed in our general comments and in the response to Specific matter for Comment 7, with respect to intangible assets stemming from sovereign power, we think the main difficulty lies in determining the recognition criteria. In this respect, we do not think the qualitative characteristics set forth in Chapters 1 to 4 of the Conceptual Framework published on 11 January 2013 provide an adequate definition of the recognition criteria.

- **Specific Matter for Comment 2**

*(a) Do you agree with the definition of a liability? If not, how would you modify it?*

The definition of liabilities used in Paragraph 3.1 is not suitable for the characteristics specific to the public sector, particularly when accounting for non-exchange transactions. These are transfers<sup>1</sup> that are part of the public sector's ordinary, routine activity.

The transfers related to the State's remit as an economic and social regulator differ from routine transactions in the private sector because they are payments made to beneficiaries but unrelated to goods or services supplied by those beneficiaries.

The key difficulty in determining the appropriate accounting treatment for these transactions lies in defining the triggering event that distinguishes between:

- present obligations, which must be recognised as liabilities, and
- potential obligations, i.e. only potential liabilities, which must be indicated in the notes to the accounts.

The latest version of the ED raises this difficulty but does not provide an adequate response to it. Only a clear definition of the recognition criteria would resolve this difficulty.

In this respect, we feel it important to stress that public entities financial statements differ from those of private organisations solely because of the specific characteristics of what these entities do. In particular, their financial statements are based on the going-concern and accrual principles, which are the same as those of private entities.

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<sup>1</sup> These transfers are distributions of aid or support for various categories of beneficiaries (public entities, not-for-profit institutions, and households) and are usually multi-year in nature.

According to these principles, the effects of the transactions should be recorded in the financial statements in the period in which they occur, even if the related inflow or outflow occurs in a different year. Conversely, the financial statements cannot record liabilities representing future expenses that will be committed by public entities as part of their routine activities. If such an approach were applied to the private sector, a business would have to set aside a provision for production costs that will be committed in future periods, on the grounds that this commitment is necessary to ensure continuity of business.

The information recognised in the financial statements can be used to analyse the past performance of an organisation, but does not predict future performance.

In France, the financial statement producer and the accounting standards setter have resolved the difficulty involved in defining the triggering event for transfers. The triggering event is considered to be the fulfilment of conditions ("service rendered"). For expenses related to transfers (generally on a multi-year basis), this means fulfilling all the conditions on which the beneficiary's entitlement is contingent, in the period relating to the fiscal year ended.

Consequently, in the case of contingent transfers, if the beneficiary does not fulfil the conditions of eligibility for the benefit on the closing date of the fiscal year, the State has a commitment to that third party, and this information is indicated in the section dedicated to commitments in the notes to the State's financial statements.

This is the case, for example, of multi-year transfers subject to annual means-testing. The amounts to be paid in future years are State commitments, not liabilities.

The above arguments stress the importance of commitments in public accounting. We would therefore like the discussion on the definition of liabilities to continue, in order to develop the concept of commitments, which should be indicated in the notes to the statements.

*(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

According to the ED, the concept of non-legal binding obligations refers to liabilities other than those relating to legal and contractual obligations. This kind of obligations can be considered as a liability if:

- ◆ The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- ◆ As a result of such indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- ◆ The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities (ED §3.10).

However, the subsequent paragraphs (§3.11 and §3.12) show that this approach does not make a clear enough distinction between present obligations, which must be recognised as liabilities, and potential liabilities, which should be indicated in the notes.

Moreover, unless it is covered by a legally binding provision, recognising this type of liability or commitment would contravene the principle of the rule of law, whereby an obligation can be enforced only by a law or contract.

In light of the foregoing, we do not think the distinction between legally binding and non-legally binding requirements is sufficient to determine the recognition criteria for a liability. We think the most relevant approach for determining the triggering event is derived from the rules on executory contracts and is based on the eligibility criteria. This approach is mentioned briefly in Paragraph 3.12.

- **Specific Matter for Comment 3**

*Do you agree with the definition of revenue? If not, how would you modify it?*

In our opinion, the definition of revenue used by IPSASB needs to be expanded in light of the characteristics specific to the public sector, for two reasons:

- we regret that the definition does not refer explicitly to sovereign revenue, which is the main type of public-sector revenue and has no private-sector equivalent,
- we do not think the reference to the concept of ownership contributions is relevant to the public sector (see response to Specific matter for comment 6 B/).

Furthermore, as argued in our response to Specific matter for comment 7 and in our general comment, the recognition criteria need to be clarified.

- **Specific Matter for Comment 4**

*Do you agree with the definition of expenses? If not, how would you modify it?*

In our opinion, the definition of expenses used by IPSASB needs to be expanded in light of the characteristics specific to the public sector, for two reasons:

- we think that the recognition criterion for expenses is service rendered, which was not made explicit in the developments,
- we do not think the reference to the concept of ownership distributions is relevant to the public sector (see response to Specific matter for comment 6 B/).

As argued in our response to Specific matter for Comment 7 and in our general comments, the recognition criteria need to be clarified.

- **Specific Matter for Comment 5**

*(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*

We think that deferred elements are distinct both from assets and from liabilities and should be defined separately. Nevertheless, we disagree with the proposed definition of these elements (see below).

*(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the :*

*i) Decision to restrict those definitions to non-exchange transactions? If not, why not?*

First of all, we consider that multi-year grants are part of transfer expenses which are not addressed in current IPSAS 23.

So, it is difficult at the present stage to pass judgement on the nature of the elements covered by "deferred elements". We understand, from §5.3 to §5.4, that "deferred elements" are related to multi-year grants. In our opinion, multi-years grants are not deferred elements but are non exchange transactions (see Specific matter for comment 2 ).

*ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

In light of the foregoing, we disagree with this definition. However, as developed in Specific matter for comment 2, the principal difficulty with respect to multi-year transfers is to determine whether the associated commitments are present liabilities or potential liabilities.

- **Specific Matter for Comment 6**

*(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*

We agree with the definition of net position. Conversely, we do not think the concept of net financial position is useful.

*(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

The concepts of "ownership contributions" and "ownership distributions" are not suited to the specific characteristics of the State's and other public entities, due to the absence of share capital unless ownership stakes in companies are involved.

Furthermore, there are other types of contributions and distributions between public-sector entities than ownership distributions and ownership contributions. In France, for example, the State's contributions to public institutions are injections recognised in the balance sheet item "net assets". When the injections finance the acquisition of an amortised asset, they are recognised in profit or loss on a systematic basis over the useful life of the asset.



*(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*

See above.

*(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

No (see above).

- **Specific Matter for Comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

The developments on the recognition criteria do not provide a clear enough definition of the triggering event for the recognition of assets and liabilities specific to the public sector and the associated expenses and revenue. Recognition of expenses is based on recognition of the service rendered, which depends on the nature of the involved transaction.

In the case of allocation of frequencies to telecommunications operators in exchange for licence fees, it is the transaction with the operators that allows for recognition as assets. Indeed, the transaction shows the economic benefits associated with the use of the radio spectrum<sup>2</sup>. In the case of transfer's outflows, the triggering event for recognition of the associated liabilities is the fulfilment of eligibility criteria, as described in Specific matter for comment 2.

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<sup>2</sup> The radio spectrum, valued on the basis of updated future licence fees, has been recognised on the balance sheet against the net position.

## **FRENCH VERSION**

La Direction générale des finances publiques salue la publication de cet exposé-sondage, ci-après « l'ED », qui tient compte des commentaires que nous avons formulés dans notre réponse à la précédente consultation relative à la phase 2 du cadre conceptuel.

Néanmoins, nous considérons qu'il ne tient pas suffisamment compte des spécificités du secteur public et principalement de celles de l'Etat liées à son pouvoir souverain. S'agissant de l'Etat, ces spécificités concernent principalement :

- la prépondérance des opérations sans contrepartie directe liées à la mission de régulateur économique et social de l'Etat. Ces opérations constituent l'activité principale et courante de l'Etat et sont sans équivalent dans le secteur privé,
- la nature des produits qui ne correspondent pas pour l'essentiel à la vente de biens ou de services mais qui sont liés à la capacité de l'Etat de lever l'impôt, actif non comptabilisé dans ses comptes,
- les actifs liés au pouvoir souverain qui peuvent résulter de transactions sans contrepartie directe, tel le pouvoir de lever l'impôt mais également de transactions avec contrepartie directe dans le cas des actifs associés au droit d'occupation ou d'exploitation du domaine public, tel le spectre hertzien. Ces actifs sont sans équivalent dans le secteur privé, et
- le rôle « d'assureur en dernier ressort » de l'Etat.

Les spécificités des autres entités du secteur public sont plus réduites compte tenu de l'absence d'attribut de souveraineté.

La difficulté principale, mise en évidence par l'ED mais non traitée, ne tient pas à la définition de ces actifs et passifs spécifiques mais à l'absence de définition claire de critères de comptabilisation nécessaires à la cohérence, la transparence, l'intelligibilité et la qualité des comptes publics dans le temps. A cet égard, nous considérons que les caractéristiques qualitatives énoncées dans les chapitres 1 à 4 du cadre conceptuel publié le 11 janvier 2013 ne sont pas suffisantes pour les définir.

S'agissant des opérations sans contrepartie directe, cette cohérence ne peut être assurée qu'en délimitant clairement ce qui relève des passifs de ce qui relève des engagements hors bilan à mentionner en annexe. Ces éléments soulignent l'importance de développer la notion d'engagements hors bilan et, d'en donner une définition claire dans le cadre conceptuel.

Par ailleurs, il nous semble essentiel de rappeler :

- qu'à l'instar des entreprises, les états financiers des entités publiques sont normalement préparés dans l'hypothèse de continuité d'exploitation (et non de liquidation) et dans le respect du principe de spécialisation des exercices,
- que l'annexe fait partie intégrante des états financiers. En conséquence les informations contenues dans les annexes ne sont pas moins importantes que celles délivrées par les autres composantes des états financiers.

L'application de ces principes doit conduire à ce que les états financiers décrivent les effets des opérations sur les périodes au cours desquelles ils se produisent, même si les décaissements ou encaissements interviennent sur un autre exercice. A contrario, l'application de ces principes ne peut conduire à comptabiliser sur l'exercice des passifs correspondant aux charges futures qui seront engagées par les entités publiques dans le cadre de la poursuite de leurs activités courantes. Une telle approche, appliquée dans le secteur privé, conduirait à ce qu'une entreprise provisionne les coûts de production qui seront engagés sur les périodes futures au motif que l'engagement de ces coûts est nécessaire pour garantir le maintien de son activité.

## Q1 /

La définition proposée par l'IPSASB est conforme à la définition des actifs retenue dans les normes comptables françaises applicables au secteur public.

Comme développé dans nos commentaires généraux et dans la réponse à la question 7, nous considérons, s'agissant des actifs incorporels liés au pouvoir souverain, que la difficulté essentielle réside dans la définition des critères de comptabilisation. A cet égard, nous considérons que les caractéristiques qualitatives énoncées dans les chapitres 1 à 4 du cadre conceptuel publié le 11 janvier 2013 ne sont pas suffisantes pour les définir.

## Q2 /

a)

La définition des passifs retenue au paragraphe 3.1 n'est pas adaptée aux spécificités du secteur public et notamment au traitement comptable des opérations sans contrepartie directe. Elles correspondent aux opérations de transferts<sup>3</sup> qui relèvent de l'activité courante et normale du secteur public.

Les opérations de transfert liées à la mission de régulateur économique et sociale de l'Etat se distinguent des opérations généralement réalisées dans le secteur privé car elles correspondent à des versements opérés envers des bénéficiaires qui ne sont pas liés à la fourniture de services ou de biens par ces derniers.

La difficulté essentielle, pour déterminer le traitement comptable associé à ces opérations, est de déterminer le fait générateur qui permet de délimiter la frontière entre :

- les obligations actuelles qui doivent être comptabilisées au passif, et
- les obligations potentielles, simples passifs éventuels, qui doivent donner lieu à information en annexe.

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<sup>3</sup> Ces transferts correspondent à des distributions d'aide ou de soutiens à différentes catégories de bénéficiaires (entités publiques, institutions à but non lucratif et ménages) et ont généralement un caractère pluriannuel.

Les développements de l'ED mettent en évidence cette difficulté mais n'apportent pas de réponse adaptée. Seule la définition claire de critères de comptabilisation permettrait de lever cette difficulté.

A cet égard, il nous semble essentiel de rappeler que les états financiers des organismes publics ne se distinguent de ceux des organismes privés qu'en raison des spécificités de leur action. Ainsi, les états financiers des organismes publics respectent notamment les principes de continuité d'exploitation et de séparation des exercices, communs à ceux des entités privées.

Ces principes conduisent à ce que les états financiers décrivent les effets des opérations sur les périodes au cours desquelles elles se produisent, même si les décaissements ou encaissements interviennent sur un autre exercice. A contrario, l'application de ces principes ne peut conduire à comptabiliser sur l'exercice des passifs correspondant aux charges futures qui seront engagées par les entités publiques dans le cadre de la poursuite de leurs activités courantes. Une telle approche, appliquée dans le secteur privé, conduirait à ce qu'une entreprise provisionne les coûts de production qui seront engagés sur les périodes futures au motif que l'engagement de ces coûts est nécessaire pour garantir le maintien de son activité.

L'information comptabilisée dans les états financiers permet ainsi d'analyser la performance passée d'un organisme, sans préjuger de sa performance future.

En France, le producteur de comptes et le normalisateur comptable ont résolu la difficulté associée à la définition du fait générateur pour les dispositifs de transfert. Le fait générateur correspond à la réalisation des conditions (dit « service fait »). Cette dernière correspond, pour les charges liées aux opérations de transferts (généralement à caractère pluriannuel), à la réalisation ou au maintien, sur la période se rattachant à l'exercice clos de l'ensemble des conditions permettant la constitution du droit du bénéficiaire.

Ainsi, dans le cas de dispositifs de transfert conditionnés, lorsque le bénéficiaire ne satisfait pas les conditions d'éligibilité du dispositif à la date de clôture, l'Etat a un engagement envers ce tiers, qui fait l'objet d'une information dans la partie dédiée aux engagements au sein de l'annexe des comptes de l'Etat.

C'est le cas par exemple des dispositifs pluriannuels versés sous conditions de ressources, le respect de cette condition de ressource devant être confirmée annuellement. Les montants restant à verser au titre des exercices futurs constituent des engagements de l'Etat et non des passifs.

Les développements ci-dessus soulignent l'importance pour la comptabilité publique des engagements. En conséquence, il nous semble que la réflexion sur la définition des passifs doit se poursuivre et développer la notion d'engagements à mentionner dans l'annexe des comptes.

B/

Selon l'ED, la notion de « non legal binding obligations » traite des passifs autres que ceux constituant des obligations légales et contractuelles. Ainsi, ce type d'obligation pourrait être considéré comme un passif s'il remplit les critères suivants :

- un engagement pris par une entité publique par ses pratiques passées, par sa politique affichée ou par une déclaration récente suffisamment explicite,
- l'entité publique a créé chez ces tiers une attente fondée qu'elle assumera ces responsabilités, et
- l'entité publique n'a pas d'autre solution réaliste que d'éteindre cette obligation (§3.10 de l'exposé sondage).

Les développements des paragraphes suivants (§3.11 et §3.12) mettent en évidence que cette approche ne permet pas de distinguer précisément les obligations actuelles (qui doivent donner lieu à comptabilisation au passif) des passifs éventuels (qui doivent donner lieu à information en annexe).

De plus, sans être couverte par une disposition légale ou contractuelle, la reconnaissance de ce type de passif ou d'engagement contreviendrait au principe d'État de droit, selon lequel seuls une loi ou un contrat peuvent légitimement fonder une obligation.

Compte tenu de ces éléments, nous considérons que la distinction des « legal / non-legal binding requirement » ne permet pas de conclure clairement sur les critères de comptabilisation d'un passif. En conséquence, nous considérons que l'approche la plus pertinente pour déterminer le fait générateur s'inspirant des « executory contracts » est fondée sur les critères d'éligibilité. Cette approche est brièvement abordée dans le paragraphe 3.12.

#### Q3 /

La définition d'un produit retenue par l'IPSASB nécessite, à notre sens, d'être complétée au regard des spécificités du secteur public pour deux raisons :

- nous regrettons que cette définition ne fasse pas référence explicitement au revenu régalién qui constitue le principal produit du secteur public, sans équivalent dans le secteur privé,
- la référence à la notion *d'ownership contributions* (« apports d'actionnaire ») ne nous paraît pas pertinente pour le secteur public (cf réponse à la question 6 B/).

Par ailleurs, comme développé dans notre réponse à la question 7 et dans notre commentaire général, les critères de comptabilisation nécessitent d'être précisés.

#### Q4 /

La définition d'une charge retenue par l'IPSASB nécessite, à notre sens, d'être complétée au regard des spécificités du secteur public pour deux raisons :

- nous considérons que le critère de comptabilisation d'une charge est le service fait, ce qui ne transparaît pas dans les développements,
- la référence à la notion *d'ownership distributions* (« dividendes ») ne nous paraît pas pertinente pour le secteur public (cf réponse à la question 6 B/).



Par ailleurs, comme développé dans notre réponse à la question 7 et dans notre commentaire général, les critères de comptabilisation nécessitent d'être précisés.

Q5 /

A/

Nous considérons que les éléments différés constituent des éléments distincts des actifs et passifs et doivent être définis distinctement. En revanche, la définition de ces éléments ne nous convient pas (cf. infra).

B/

i)

Tout d'abord, nous considérons que les subventions pluriannuelles constituent des charges de transfert, lesquelles ne sont pas traitées dans la norme IPSAS 23.

Ainsi, à ce stade, il nous est difficile de nous prononcer sur la nature des transactions couvertes par les éléments différés. En effet, nous comprenons des § 5.3 et § 5.4 que les éléments différés visent explicitement les subventions pluriannuelles qui sont des « non exchange transactions » mais qui, de notre point de vue, ne constituent pas des éléments différés (Cf. question 2).

ii)

Compte tenu de ces éléments, cette définition ne nous convient pas. En effet, comme développé dans la question 2, pour ces dispositifs, la difficulté principale est de déterminer si les engagements associés constituent des passifs actuels ou des passifs éventuels.

Q6/

A/ La définition de la situation nette nous convient. En revanche, la notion de « net financial position » ne nous semble pas utile.

B/

Les notions d' « ownership contributions » et d' « ownership distributions » ne sont pas adaptées aux spécificités de l'Etat et des entités publiques du fait de l'absence de capital social sauf lorsqu'elles détiennent des participations dans des entreprises.

Par ailleurs, les contributions et distributions entre entités du secteur public peuvent prendre d'autres formes que la distribution de dividende ou d'apports d'actionnaires. Ainsi, en France, les contributions de l'Etat à ses établissements publics sont présentées dans un poste dédié de la situation nette. Lorsque ces dotations financent un actif amortissable, elles sont reprises en compte de résultat selon le même rythme que l'amortissement de l'actif.

C/ Voir supra.

D/ non (voir supra).

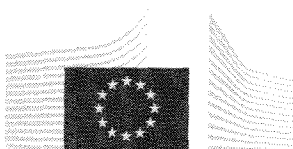
Q7/

Les développements relatifs aux critères de reconnaissance ne nous semblent pas adaptés pour définir clairement le fait générateur de la comptabilisation des actifs et passifs spécifiques du secteur public ainsi que des charges et produits associés. La comptabilisation des charges repose sur la constatation du service fait qui dépend de la nature de l'opération concernée.

Dans le cas de l'attribution de fréquences à des opérateurs de télécommunication en contrepartie du versement de redevances, c'est la transaction avec les opérateurs qui permet leur reconnaissance à l'actif. En effet, la transaction permet de mettre en évidence les avantages économiques associés à l'utilisation du spectre hertzien<sup>4</sup>. Dans le cas des dispositifs de transfert conditionnés, c'est la réalisation des conditions d'éligibilité qui constitue le fait générateur de la comptabilisation des passifs associés comme évoqué dans la question 2.

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<sup>4</sup> Le spectre hertzien, évalué sur la base des redevances futures actualisées, a été comptabilisé au bilan en contrepartie de la situation nette.



**EUROPEAN COMMISSION**  
Budget

The Accounting Officer of the Commission

Brussels,  
BUDG.DGA.C02/MK/mt

**NOTE FOR THE ATTENTION OF PROF DR ANDREAS BERGMANN,  
CHAIRMAN OF THE IPSAS BOARD**

**Subject: Comments on the Conceptual Framework Exposure Drafts 2:  
Conceptual Framework for General Purpose Financial Reporting by  
Public Sector Entities: Elements and recognition in financial  
statements**

Thank you for giving me the opportunity to comment on the Exposure Draft 2 of the Conceptual Framework project. The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other Bodies with an annual budget of more than EUR 140 billion.

As a general comment, I would like to congratulate the IPSAS Board for issuing this high quality exposure draft and for the significant progress made on the work on the Conceptual Framework. Please find my comments on specific matters of this exposure draft in the Annex to this note.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any question you may have on the comments.



Manfred Kraff

Annex: Comments on specific matters

Copy: S. Fox, J. Stanford, IFAC  
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## Annex: Comments on specific matters

### **Specific Matter for Comment 1:**

*Do you agree with the definition of an asset? If not, how would you modify it?*

#### **Comment:**

We agree with the definition of an asset as presented in this exposure draft. However, we would like to draw your attention to the definition of a "resource" in paragraph 2.2. The asset definition refers to a "resource, with the ability to provide an inflow of service potential or economic benefits ...". A resource is defined as "an item, with the ability to provide an inflow of service potential or economic benefits." The need to define a "resource" in the same way as an "item" is not very clear in the paper and needs more explanation. Without additional explanation, the introduction of "item" seems redundant.

### **Specific Matter for Comment 2:**

*a) Do you agree with the definition of a liability? If not, how would you modify it?*

#### **Comment:**

We agree in general with the definition of a liability as presented in this exposure draft. However, we would encourage the board to clarify better the notion of "little realistic alternative to avoid an outflow of service potential or economic benefit." In the paragraphs following the definition of a liability, this distinction is not explained any further and this could cause uncertainty as to when the definition of a liability is met. If the word "little" refers to the uncertainty of future events and the fact that one can never be certain (100%) but only virtually certain, then we believe it could be useful for preparers to add a short clarification in this respect to one of the paragraphs. As we don't believe that a difference with IFRS was intended in this respect, a clarification would eliminate doubts.

### **Specific Matter for Comment 5:**

*a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not.*

#### **Comment:**

We fully understand that there are good arguments to implement an inter-period equity concept, in particular when accrual accounting is combined with accrual budgeting. However, we believe that the benefits of this concept do not outweigh both conceptual and practical issues related to this concept as it is proposed, and thus we would, for the reasons outlined below, prefer not to define deferred in- and outflows as separate elements of financial statements.

From a conceptual point of view, we find most of the arguments expressed as the alternative view to the exposure draft convincing. In particular, we find it problematic to define resources that are not under the control of the transferor (outflows with restrictions only attached to it) as elements of the statement of financial position of the transferor. The transferor of a grant without conditions does not control the resource any longer and so the deferred reporting on the financial performance might be misleading for the addressees of financial reporting in particular when the service recipients (not resource recipients) are located in

another jurisdiction than the transferor. Similarly, the recipient in a non-exchange transaction without conditions attached to it has gained control over the resource received and so the dynamic future consumption of economic benefits is completely under the discretion of the resource recipient.

The control-criterion in combination with the past event requirement is, for us, very important in this context as it is in most cases observable and thus reliable. Although we can see the advantages for the revenue/expense-led approach, we believe that it should not be implemented in the proposed way. The recognition of elements based on control and past events seems more reliable and less sensitive to manipulation.

We also believe that the deferred in- and outflows model in its proposed narrow form does not necessarily take the advantages of the dynamic approach into account. On the one hand it might be that the conditions attached (clearly specified future periods) are, for whatever reason, not always met and so for similar transactions, different accounting treatments would follow and on the other hand changes in estimation or other circumstances would again lead to bias in the inter-period equity.

We are, furthermore, of the opinion that the definition of deferred in- and outflows at the Conceptual Framework level for very specific types of non-exchange transactions with specific conditions attached may result in a mismatch with all other elements of financial statements. The conceptual extension of criteria that determine elements for such specific cases does not, in our opinion, justify the benefits intended as compared to all other transaction neutral elements of financial statements. We support a more principle based transaction neutral approach for the Conceptual Framework level.

As mentioned above, we do believe that there are particular transactions on the recipient's side where the inter-period equity approach would indeed present fairly the substance of the transaction. We therefore would like to encourage the board to reflect on how to solve this issue on a standards level. One possibility would be to reflect on the possibility of changing the definition of condition in IPSAS 23 in the sense that quasi conditions are included or stipulations where the transferor has the expectation that the recipient complies with the intention of the transferor.

***Specific Matter for Comment 6:***

*a) Do you agree with the term net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*

**Comment:**

Following our reply to SMC 5 the definitions of net financial position can be dropped as only the term net asset would remain.

9 May 2013

Ms Stephenie Fox  
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International Public Sector Accounting Standards Board  
International Federation of Accountants  
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Dear Stephenie

**Conceptual Framework Exposure Draft 2 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements**

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the proposals and our comments follow. CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

Our preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. The Memorandum of Understanding between the International Accounting Standards Board and the International Federation of Accountants notes the importance of involving the International Accounting Standards Board technical staff in the IPSASB's development of a conceptual framework for public sector entities (Framework). We are pleased that this is taking place and we hope that it will continue with an increasing focus now that the IASB are progressing with their conceptual framework project. We commend the IPSASB on publishing the first four chapters of the Framework. We also agree with the decision of the IPSASB to defer approval and publication of the Preface to the Framework until the Framework is being finalised. This will allow the linkages with the concepts in the Framework to be made more explicit. Furthermore, we believe the Framework would benefit from an IPSASB review of all the published chapters as part of the finalisation process. As well as enabling the linkage of concepts to be made more explicit a review of this type enables the Framework to be subjected to a contemporary holistic evaluation before its finalisation.

At the Framework level we consider it important that the asset and liability definitions are kept general and broad. Further, we believe that assets and liabilities should be the principal building blocks of the Framework. For this reason we do not support the IPSASB's proposals in Conceptual Framework Exposure Draft 2 (ED) to define 'deferred inflows' and 'deferred outflows' as new elements used in financial statements.

Representatives of the Australian Accounting Profession



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The Appendix to this letter contains our general comments and our response to the questions for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email [mark.shying@cpaaustralia.com](mailto:mark.shying@cpaaustralia.com) or Kerry Hicks, the Institute by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a large loop at the top and a trailing flourish.

**Alex Malley**  
Chief Executive  
CPA Australia Ltd

A handwritten signature in black ink, appearing to read 'Lee White', with a large loop at the top and a trailing flourish.

**Lee White**  
Chief Executive Officer  
Institute of Chartered Accountants  
Australia

## Appendix

### General comments

We believe that assets and liabilities are the principal building blocks of the system to give meaning to financial performance through the reporting of economic phenomena in the form of economic resources and obligations. This system was described in an earlier IPSASB Consultation Paper *Elements and Recognition in Financial Statements* as an asset and liability-led approach. On reading the ED it is our conclusion that the IPSASB has rejected the asset and liability-led approach in favour of a revenue and expense-led approach. In turn, this means that assets (and liabilities) are not considered to be the principal building blocks – which is an outcome that we do not support.

### Specific Matter for Comment 1

#### Do you agree with the definition of an asset? If not, how would you modify it?

We support the proposed definition of an asset as it is general and broad and it captures the economic phenomena that we believe is the essence of the definition of an asset. However, we do note that the use of the term ‘future economic benefits’ could simplify the definition if it is used to encompass both ‘economic benefits’ and ‘service potential’.

We consider the relationship between service potential and economic benefits is unclear from paragraphs 2.3 to 2.4 of the ED. The explanation in paragraph 2.3 describes service potential broadly to be likely to encompass all assets without necessarily generating cash flows. BC 8 explains that the term ‘economic benefits’ relates to the ability to generate net cash flows, which sounds like it could be considered a subset of service potential.

We recommend that the wording is changed as above, and the guidance clarified to indicate that service potential was a sub-set of future economic benefits.

### Specific Matter for Comment 2

- a. Do you agree with the definition of a liability? If not, how would you modify it?
- b. Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

We do not support the proposed definition of a liability as we consider that the inclusion of ‘little or no realistic alternative to avoid’ is more in the nature of a recognition criteria than a definition. This is because ‘little or no realistic alternative to avoid’ is specifically applicable to the entity assessing the liability and therefore should not be used in a definition.

Further, we consider that some of the guidance in the Basis of Conclusion needs further work. In particular, we note the Basis for Conclusions to the ED states “distinguishing between conditional and unconditional obligations is not useful for the purpose of defining a liability...[and] the notion of a stand-ready obligation does not work well in a public sector non-exchange context...”. It is our view that the ED definition has been developed to reflect these views. We do not support this approach.

We note that the IASB work to date in its Conceptual framework project treats the distinction between conditional and unconditional rights as fundamental to identifying whether assets and liabilities exist. We are unaware of any public sector rationale for any differences to this principle. Further, including this principle would remove the need to consider whether contracts are executory, which means the discussion in BC 7 could be removed.

Therefore, we suggest that the definition of a liability be established on whether obligations are conditional or unconditional. We consider that an entity has a liability only in respect of unconditional obligations and that many obligations to provide future benefits (in a non-exchange setting) would be conditional obligations. Finally, we consider an entity has a liability when it has an unconditional obligation from which it cannot realistically withdraw regardless of whether that obligation is contractual or constructive.

We also consider that the definition of a liability should encompass 'stand ready obligations'. Noting that we disagree with the discussion in BC24 that states that the notion of stand-ready obligations 'does not work well in the public sector' and that it 'would not provide a sound basis for future standard setting'. We consider that the 'social benefits obligation' potential for liability recognition may be the issue that the IPSASB is trying to avoid. We do not consider the elements need to change for this one issue, as guidance on this issue can be developed at the standards level.

Further, we note that the last sentence in BC26 states that 'because performance obligations are normally conditional obligations ...., it would not be appropriate to use the term "performance obligation" in the Framework'. We also disagree with this comment as it is based on a mistaken presumption that performance obligations are conditional obligations. We also note that performance obligations are fundamental to the upcoming IFRS on revenue recognition, which is yet to be considered by the IPSASB.

### **Specific Matter for Comment 3**

**Do you agree with the definition of revenue? If not, how would you modify it?**

### **Specific Matter for Comment 4**

**Do you agree with the definition of expenses? If not, how would you modify it?**

Our answer to Specific Matters for Comment 3 and 4 follow. We do not agree with the proposed definitions of revenue or expenses.

We believe that revenue and expense should be determined by an asset and liability-led approach. It is our view that revenue and expense should reflect all changes in economic resources and not just those changes that represent inflows or outflows of resources. To accommodate this view of revenue and expenses would necessitate expanding their definitions to provide for those remeasurements of assets and liabilities that do not represent inflows and outflows of resources, for example revaluation increments and decrements of property, plant and equipment. Further, the references to 'deferred inflows' and 'deferred outflows' should be removed. As we have mentioned above, we do not support these items being separate elements.

### **Specific Matter for Comment 5**

- a. Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?**
- b. If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:**
  - i. Decision to restrict those definitions to non-exchange transactions? If not, why not?**
  - ii. Definitions of deferred inflows and deferred outflows? If not, how would you modify them?**

We do not agree with the decision to define deferred inflows and outflows as elements. As stated in our general comments and responses to specific matters for comment 3 and 4 above we support an asset and liability led approach under which deferred inflows and deferred outflows are not identified as elements. It is our view that assets and liabilities are the principal building blocks of the system to give meaning to financial performance through the reporting of economic phenomena, with revenue and expenses reflecting changes in those phenomena. We do not support identifying deferred inflows and

deferred outflows as elements because to do so requires constraining the Framework definition of the elements assets and liabilities and expanding the Framework to include as new separate elements the time dimension of existing elements. We believe this outcome can only add to the complexity in financial reporting and is not consistent with addressing the concerns of stakeholders about financial reporting as articulated in the expectation gap literature.

#### **Specific Matter for Comment 6**

- a. **Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?**
- b. **Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?**
- c. **If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?**
- d. **Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?**

We believe it is important that the finalised Framework specify the status of ownership-type interests in the public sector. It is our view that there will exist, on occasions, ownership interests in the public sector and in some cases there may be no identifiable ownership interest. For this reason, we consider that net assets should be regarded as a residual amount, and in many cases, this residual will represent an ownership interest. We support the definition of net assets and a treatment whereby any specific ownership interest is a sub-classification of net asset.

For the reasons stated in our general comments and to the specific matters for comment above we see no place in the Framework for the term 'net financial position' or its definition.

#### **Specific Matter for Comment 7**

##### **Do you agree with the discussion on recognition? If not, how would you modify it?**

We agree with the proposal in the ED that the Framework treat the recognition criteria as a separate and distinct phase from the establishment of the definitions of the elements of financial statements.

However, we note that although Section 7 of the ED is headed 'Recognition Criteria' no explicit recognition criteria are set out. We recommend that explicit recognition criteria are included.

We also believe that the recognition criteria should be neutral, meaning the same for all assets and liabilities, as well as being a neutral judgement whether the element exists at reporting date.

Paragraph BC52 identifies two types of uncertainty that need to be considered in determining whether an element should be recognised – existence uncertainty and measurement uncertainty. As we are not familiar with the concept of existence uncertainty we had expected that its explanation in the Framework would enable us to assess its level of neutrality. As our expectation was not satisfied we encourage the IPSASB to improve the quality of the explanation given.

The Framework describes a second type of uncertainty; measurement uncertainty. After reading that description we have concluded that the Framework supposes a monetary item including zero can always be attached to the item being measured. We disagree. We believe there may be occasion when for a particular item there is no measurement basis that satisfies the qualitative characteristics of the Framework. Consequently, the item being measured is not able to have a monetary item attached to it.



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30 April 2013

Dear Ms. Fox

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

The global organization of Ernst & Young is pleased to respond to the request of the IPSASB (or the Board) to comment on the above Exposure Draft (ED or proposal).

**General comments**

We support and commend the Board's efforts in developing an accounting conceptual framework specific to the public sector and its objective to set high-quality public sector accounting standards in order to strengthen transparency and accountability of public sector finances.

We would strongly encourage the Board to be closely connected to the development of the International Accounting Standards Board's (IASB) conceptual framework and consider the relevance and appropriateness of the decisions taken by the IASB for the IPSASB's conceptual framework. While we acknowledge that there will be some public-sector specific standards and requirements for public-sector transactions, the concepts underpinning the elements, recognition and measurement should be coherent and consistent between both frameworks.

We generally agree with the direction of the project except for the area highlighted below.

**Defining deferred inflows and deferred outflows as separate elements**

Although we understand the issue that the Board is seeking to address, we disagree with defining deferred inflows and deferred outflows as elements as described in paragraphs 5.1 - 5.6 of the ED and highlight some of the reasons here. More detailed discussion is included in our response to Specific Matter for Comment (SMC) 5 in the appendix to this letter.

We consider it important that the conceptual framework contains elements that represent real-world phenomena, rather than accounting constructs that do not exist in the real world.

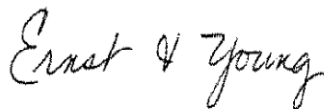
Also, although the Board has attempted to limit the circumstances in which deferred inflows or deferred outflows arise (only from non-exchange transactions), the limitation serves to demonstrate that these resemble exceptions rather than defined elements developed on a sound conceptual basis.

Time-based restrictions placed on inflows or outflows could provide entities with structuring opportunities to delay recognition of revenue or expenses. For example, an entity that received funding to undertake a particular project is not required to return the funds if they are not spent as specified. This would give rise to immediate revenue recognition. However, if the restriction is based on time (i.e. the funds are to be spent in a particular time period), revenue is deferred, even though there is no obligation to return the funds if they are not spent during that period. Firstly, we are not convinced that there is any conceptual rationale that explains why the two types of restrictions should result in different accounting treatments. Secondly, it would be possible for an entity to negotiate a project-based restriction for a time-based restriction in order to achieve a desired accounting outcome, without changing the substance of the arrangement.

We would like to emphasize that concepts outlined in the conceptual framework should be applicable to a range of transactions and events. Further, principles in the conceptual framework should not be designed to accommodate or achieve specific outcome(s) for particular group(s) of transactions. We suggest that in instances where the Board believes departures from the principles in the framework are required; it would be more appropriate to deal with such departures at a standard level, rather than at the conceptual framework level.

Please find our responses to the specific matters for comments set out in the appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller Marqueś-Berger at (+49) 711 9881 15844 or Serene Seah-Tan at (+44) 20 7980 0625.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

## Appendix - Responses to the specific matters for comments

### Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

We agree with including both the notions of service potential & economic benefits into the definition of an asset. As mentioned in the Basis for Conclusions (BC) paragraph 8, there are different views on the meaning of these terms; therefore we agree that having both notions in the definition of an asset in the public sector context would encapsulate a public sector entity's objective(s) to deliver goods and services, and/or to generate net cash inflows. Nevertheless, we have included the following suggested clarifications to the discussion of Assets in section 2 of the ED:

- ▶ Paragraph 2.2 (4<sup>th</sup> sentence) states 'The benefits can arise directly from the resource itself or from the rights to the resource.' This sentence seems to have confused 'rights' with 'resources'. This is an important point when determining the *nature* of an entity's asset. Where an entity has the right to use a physical/intangible object, that right of use is the resource that the entity controls, not the object itself. This could be rectified by the following suggested wording 'The benefits can arise directly from the physical or intangible object itself or from the rights to the object.'
- ▶ In paragraph 2.6(b), the discussion of control is very broad. It focuses on power without linking it back to the notion of the entity deriving benefits from the resource. For example, a government's legislative or regulatory powers could result in all resources in the government's jurisdiction being considered to be under the control of the entity if the wording in paragraph 2.6(b) is applied. We suggest rewording paragraph 2.6 and combining (a) and (b) along the following lines "... Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource."
- ▶ We would also suggest that the Board discuss the issue of control over an entity in the body of the conceptual framework. We acknowledge that the Board is currently in the midst of the revision of IPSASs 6-8, but it would be useful to include a discussion on this issue, and the fact that it could differ quite significantly between jurisdictions. In practice, there are often difficulties in differentiating between 'administrative', 'operational', 'political influence' and 'judicial' control. For example, in countries where democracy is less mature or where the sovereign has extensive authority, it can often be difficult to determine control at the whole of government or federal government level. Hence a discussion of the key factors for preparers to consider when analyzing control as the basis for consolidation would be helpful.
- ▶ Paragraph 2.8 - the penultimate sentence sets out 4 points in time when an event gives rise to an asset of an entity. It is not clear what the difference is between events (c) and



(d) - can the entity have a right to collect tax before the other party has an obligation to pay tax? The last sentence in this paragraph indicates that event (c) gives rise to an asset, yet the other party has no obligation to pay tax if (d) has not occurred. If (c) and (d) are two distinct events that can happen at different points in time, does this mean that, for example, a local council announcing that the rates it will levy on ratepayers next year, creates a present right to collect those rates? Although, in general, the existence of an asset does not necessarily mean that a counterparty with a corresponding liability must also exist (and vice versa), in the specific example of taxes, if an entity has "exercised its power to create a right" to collect taxes (i.e. event (c) has occurred), it is unclear in what circumstances this event would occur earlier than event (d). Given the final sentence in paragraph 2.8 indicates that event (c) is the triggering event for an asset to arise, it would be helpful to clarify the distinction between event (c) and event (d).

### Specific Matter for Comment 2

- a) Do you agree with the definition of a liability? If not, how would you modify it?
- b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

Before we get into the more specific question asked in SMC 2, we want to emphasize our strong support for the IPSASB re-starting its project on social benefits. We believe that the development of the elements phase of the conceptual framework is at an adequately mature stage for the Board to re-commence its discussion on social benefits.

Further, given that the key public sector issue in the liabilities area is whether a government has a liability for future social benefit payments, we would have expected clearer discussion in the conceptual framework. Nonetheless, we find the discussion of non-legal binding obligations helpful for users dealing with such a difficult issue. If the Board feels that it is not in a position to discuss the nature of social benefits within the conceptual framework at all, we would prefer the Board to avoid ambiguity in the discussion within the non-legal binding obligation section. In particular, paragraph 3.12, second sentence, appears to be suggesting that an obligation does not arise until a claimant has met the eligibility criteria. But this does not address:

- ▶ Situations where the meeting of that criteria is outside the entity's control - for example, if payment of a pension is dependent on the individual reaching the specified retirement age, it's outside the government's control whether or not citizens would live to reach the required age.
- ▶ Let's say a person meets the eligibility criteria (e.g. reaches retirement age), does that mean there is a liability for all future pension payments? Or has the Board taken the view that a person must keep on meeting that criteria (e.g. stay alive) for a liability for future payments to exist?

Although some might argue that the points in the bullets above are standards-level questions, it's one of the most significant unresolved issues in the public sector; we would have expected the conceptual framework to discuss the principles surrounding such 'non-

enforceable' obligations (social benefits encompassing for example health care and childcare benefits) that a government has to her citizens.

If the Board should decide that future social benefit payments, especially for pensions, are not present obligations of governments, this conclusion should be reconciled to why there is acceptance that entities have a present obligation for employee pension payments.

Also, the discussion of pensions above relate to the broader question of conditional versus unconditional obligations - if a future payment is subject to the counterparty first meeting specified conditions, does that mean that a present obligation does or doesn't exist? What if the meeting of those conditions is totally outside the entity's control?

Regarding the relationship between funding and the existence of a present obligation, paragraph 3.12(c) does not address the question of this link. Some proponents argue that future social benefit payments are not a present obligation because they are conditional upon the availability of funding at the time. In our view, the availability of funding to settle the obligation generally has no impact on whether a present obligation exists. An exception would be where a lack of funding is both likely and well-known, such that other parties do not expect the entity to be able to settle. In effect, this situation relates to paragraph 3.10(b) - for example, if it's well known that maintaining the current level of spending on pensions is unsustainable in the long term, it's likely that citizens may not expect to receive a pension (or the same amount of pension) in the future.

a) We generally agree with the definition but suggest some wording modifications to clarify what we thought is the intended meaning of the definition. The definition of liability could be better expressed if the reference to an 'outflow of service *potential* or *economic benefits*' be changed to 'outflow of resources (including services) from the entity'. It is the resource itself that is capable of being transferred and not the service potential or economic benefits of a resource.

Paragraph 3.7 on economic coercion - we suggest that the Board consider expanding the discussion to include the issue of political coercion, i.e. just because a government might feel politically compelled to do something, that doesn't mean that a present legal obligation exists. For example, pledging to provide funds to another party often does not give rise to a legal obligation to provide that funding.

The discussion of sovereign power in paragraph 3.9 is helpful, as this is a key difference between the public and private sectors. However, paragraph 3.9 appears inconsistent with paragraph 3.12(b). While paragraph 3.9 indicates that liabilities exist based on current legislation, paragraph 3.12(b) seems to imply that liabilities don't exist if the government can change the legislation before the obligation has to be settled. The discussion in paragraph 3.12(b) is also inconsistent with BC33.

**Specific Matter for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

**Specific Matter for Comment 4**

Do you agree with the definition of expenses? If not, how would you modify it?

As discussed earlier in our cover letter and further in our response to SMC 5 on deferred inflows and deferred outflows, we suggest modifying the definition of revenue and expenses by removing any references to deferred inflows and deferred outflows in the existing definitions in paragraphs 4.1 and 4.2.

**Specific Matter for Comment 5**

- a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
  - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

a) As mentioned previously, although we understand the issue that the Board is attempting to address, we disagree with including these as elements in the conceptual framework, as we do not find the justification brought forward to define these as elements sound or convincing. One justification for deferred inflows and outflows is the passage of time. The existence of other elements in the framework is based on the occurrence of a past transaction or event. Deferred inflows and outflows arise as a consequence of time, and the reasons for delaying the recognition of these revenues and expenses, is so that they are used in the period specified by the transferor, but an entity need not use the resources in that period for revenue or expenses to be recognized in that period. This reinforces the view that control either existed (in the case of deferred inflows), or was lost (in the case of deferred outflows), in earlier reporting periods. This view is consistent with the dissenting view of Jeanine Poggiolini (alternative view (AV) 7-11).

Without reiterating all the points already made in the cover letter, we don't believe that the limitation of circumstances in which deferred inflows and outflows arise would be sufficient to prevent entities from structuring and manipulating clauses in an arrangement to achieve a desired accounting outcome.

Additionally, using the passage of time to determine when debits are treated as deferred debits or expenses (or deferred credits or revenue) appears to be inconsistent with the views on the passage of time expressed in paragraph 3.8 - which states that 'Claims that are unconditionally enforceable *subject to the passage of time* therefore are enforceable obligations in the context of the definition of a liability' [emphasis added]. In other words, there seems to be an inconsistent application of the 'passage of time' requirement between

the definition of liabilities and deferred inflows and outflows. Also, flows resulting from exchange transactions that are deferred to specified future periods are not considered to be deferred flows. As such, the principle underlying the recognition of deferred inflows and deferred outflows seems unclear.

From the definition and example of deferred inflow and outflow (in paragraphs 5.2 & 5.4) a transferor who has already transferred a grant to a transferee, would not be recording that transfer upfront as an expense if there were restrictions on when the transferee can utilize the grant and vice versa. From a control perspective, it seems difficult to argue that the transferor still has control over the grant. Furthermore, would presentation of that outflow on the transferor's statement of financial position as a deferred outflow provide more useful information to a user? In particular, would it provide a representationally faithful presentation of the entity's financial position? Unless the transferor has 'clawback' provisions on the grant, (i.e. the grant is not unconditionally given to the transferee and the transferee has to refund the grant at any point in time that it breaks any clauses in the arrangement), it seems hard to argue that the transferor should not be recognizing a current outflow as an expense in the period that the grant is transferred, regardless of the period to which the grant relates.

Also, did the Board intend to convey the notion of 'continued involvement' from the transferor of the grant in the definitions of deferred inflows and outflows, i.e. the time-based restrictions on these flows indicate that control of the grants are not fully transferred until the transferee has unconditional rights to the grant? If so, wouldn't these be a subset of revenues/expenses, instead of elements in their own right?

Although accounting standards and practices sometimes result in deferred debits and credits being recorded on the statement of financial position, for various reasons, a conceptual framework should contain conceptual principles that are transaction neutral and applicable to a range of transactions and events, with necessary departures from the conceptual framework dealt with at the standards level.

Also, we find the justification in BC40-BC43 contradictory and unconvincing. For example, BC42 rejects a presentational approach, on the grounds that it would have to be considered at a standards-level, which might lead to inconsistency, while arguing in BC43 that it's necessary to include deferred inflows and outflows as elements to avoid such standards-level inconsistency. If it is valid to include guidance in the conceptual framework to avoid standards-level inconsistency, then why couldn't guidance on the presentational approach be included in the conceptual framework to avoid standards-level inconsistency?

**Specific Matter for Comment 6**

- a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

a) As mentioned previously, we do not support defining deferred inflows and outflows as separate elements. Consequentially, it would not be necessary to include a definition for net financial position.

b) & c) We agree with the decision to define ownership contributions and ownerships distributions for the reasons in paragraphs 6.5 and 6.6. However, we believe this section can be further expanded to help users better distinguish the difference between when an owner is making capital contributions versus funding that should be treated as revenue. It is also unclear to us, whether the Board intended that in all circumstances, where a contributor does not have a right to a return on investment (as described in paragraph 6.7), that such contributions be treated as revenue?

d) The Board could consider providing a definition for ownership interests or expand on the discussion of ownership interests.

In distinguishing owners from non-owners, considering the right to a return is crucial, but equally important (perhaps more so after what was observed during the financial crisis on structured entities) that ownership not only give rise to rights to returns but also obligations on outstanding liabilities.

**Specific Matter for Comment 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

This section discusses existence uncertainty and measurement uncertainty as recognition criteria, but it's unclear whether there is any particular recognition threshold. It would be helpful if the IPSASB further explain existence uncertainty in the recognition criteria. In certain cases, it may be uncertain whether an asset or liability exists, therefore further guidance on whether an explicit probability threshold should be applied in such cases, what the threshold should be (e.g. virtually certain, probable) and whether the threshold for an asset should be the same as for a liability, would be helpful to constituents.

Further, the comments in paragraph 7.5 include reference to 'sufficient' but there is no indication of whether this is intended to create a recognition threshold. In particular, does it infer that an item should not be recognized if it cannot be measured with a 'sufficient' level of faithful representation? We also think that measurement uncertainty belongs in the measurement section of the conceptual framework (see our comment letter on ED 3 *Measurement of Assets and Liabilities in Financial Statements*), in helping entities choose between the different measurement attributes.



**Australian Government**  
**Australian Accounting**  
**Standards Board**

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15 May 2013

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

Dear Ms Fox

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

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

**General Comments**

***Due process***

The AASB recommends that the IPSASB issues an omnibus ED incorporating its proposed Conceptual Framework after it has redeliberated all of its Conceptual Framework EDs, rather than finalising its Conceptual Framework without further consultation. An omnibus ED would enable the IPSASB's constituents to comment on the IPSASB's latest thinking on all of its proposals in its Conceptual Framework project, and to have regard to recent developments in financial reporting (including developments in the IASB's Conceptual Framework project).

***Subsequent review and update of the IPSASB Conceptual Framework***

The AASB recommends that the IPSASB should regard its Conceptual Framework as a living document, and thus should commit to reviewing and updating it from time to time in light of subsequent developments in financial reporting, the timing of which should reflect its resources and priorities. This approach would be beneficial, for example, in respect of concepts of presentation and disclosure. The AASB considers that thinking on these concepts is still in the early stages of development, on the part of the IPSASB, the IASB and the international financial reporting community generally. Therefore, it seems likely that thinking on concepts of presentation and disclosure will continue to evolve further. This illustrates the importance of not treating the IPSASB Conceptual Framework as an immutable document.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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### ***Relationship between the IPSASB and IASB Conceptual Framework projects***

The AASB recommends that the IPSASB maximises its liaison with the IASB regarding those Boards' respective Conceptual Framework projects, in the context of the Memorandum of Understanding between the International Federation of Accountants and the IASB dated 22 November 2011.

Ideally, the IPSASB and IASB Conceptual Frameworks would be complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

In the context of the IPSASB's ED, the AASB recommends that differences between the IPSASB and IASB Conceptual Frameworks in relation to the definitions of, and recognition criteria for, the elements of financial statements should occur only when there is a public sector not-for-profit entity-specific reason for those differences. This is on the basis that the AASB supports transaction neutrality<sup>1</sup> and the ultimate development of a single converged Conceptual Framework for all entities (regardless of their sector).

Despite this recommendation, the AASB's arguments in relation to the IPSASB ED in this submission are mainly focused on technical reasons, and not primarily on whether the IPSASB's proposals are consistent with the tentative thinking of the IASB in its Conceptual Framework project.

### **Specific Comments**

The AASB's most significant specific comments regarding the issues in the ED are in respect of 'deferred inflows' and 'deferred outflows' (see below).

### ***Deferred inflows and deferred outflows***

The AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements. The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) only assets and liabilities should be recognised in the statement of financial position.

An important reason why the AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.

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<sup>1</sup> Under 'transaction neutrality', a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates.



## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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Consistent with this view, the AASB also does not support consequently identifying net financial position in addition to net assets.

The AASB's concerns regarding 'deferred inflows' and 'deferred outflows' are elaborated in its comments on Specific Matter for Comment 5, set out in Appendix A.

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

AASB staff's editorial comments on the ED will be provided separately to IPSASB staff.

If you have any queries regarding matters in this submission, please contact me or Jim Paul ([jpaul@aab.gov.au](mailto:jpaul@aab.gov.au)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. M. Stevenson'.

Kevin Stevenson  
*Chairman and CEO*

IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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## APPENDIX A

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

#### Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

The AASB generally agrees with the proposed definition of an asset. Its suggestions for modifying the definition (and related guidance) are set out below.

#### **“Service potential or economic benefits”**

The definition of an asset in paragraph 2.1 of the IPSASB ED refers to “an inflow of service potential or economic benefits”. In this regard, the AASB would prefer only using the phrase ‘inflow of economic benefits’ in the definition of an asset, with clarifying guidance that service potential is a sub-set of economic benefits. This is because the AASB considers that, for any entity, whether for-profit or not-for-profit, in the public sector or private sector, stocks of economic benefits (‘future economic benefits’) are the scarce capacity of a resource to provide goods or services and thus assist the entity in achieving its objectives, regardless of whether those objectives are directed primarily at generating net cash inflows. Consistent with that view, all inflows of service potential would be encompassed by inflows of ‘economic benefits’.

The AASB notes that some commentators regard ‘economic benefits’ as synonymous with net cash inflows, and are concerned that ‘economic benefits’ would therefore not encompass all resources deployed by not-for-profit entities. The AASB regards this concern as misplaced. Resources deployed by not-for-profit entities to provide services would generally also be held to generate net cash inflows, either directly through user charges or indirectly in the form of transfers from government and/or taxes. Sometimes a cash inflow may be in the form of an explicit subsidy of the cost of services provided, or implicit in the raising of revenue at an entity-wide level (for example, in the form of some taxes). The fact that some net cash inflows are more difficult than others to relate to particular assets does not necessarily mean the assets are not cash-generating.

The relationship between service potential and economic benefits in the IPSASB ED seems unclear from paragraphs 2.3 – 2.4 of that ED. Paragraph 2.3 describes service potential so broadly as to be likely to encompass all assets; whilst economic benefits, being equated with an ability to generate net cash inflows (see second sentence of paragraph BC8), seems intended to be a subset of service potential (given that IPSASs distinguish ‘cash-generating’ and ‘non-cash-generating’ assets). However, the last sentence of paragraph 2.4 refers to “many assets that embody service potential”, which implies some assets do not embody service potential and consequently that economic benefits complement service potential. Related to this issue, the AASB disagrees with the implication in paragraph BC9 of the Basis for Conclusions on the IPSASB ED that an asset may generate net cash inflows without providing goods or services, given the broad meaning of ‘goods and services’.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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### **Association of an element with the entity**

The AASB notes that some assets, by their very nature, would be automatically associated with a particular entity and therefore would not require the specification of factors that associate the asset with the entity. For other assets, the AASB considers that, ideally, the definition of an asset should be broad, and (unlike the IPSASB's proposed definition) should exclude factors that associate the element with an entity, such as control. Consistent with this, the AASB considers that such factors should form part of the recognition criteria instead.

This is because the AASB considers it is useful to focus on the nature of economic phenomena (economic benefits and claims to economic benefits) that affect various entities, without restricting definitions of assets and liabilities only to phenomena that affect the reporting entity. This approach has the advantages of:

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

However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project<sup>2</sup> is (consistently with the IPSASB's proposal) to include factors that associate the element with an entity (such as control) in the definition of an asset. The AASB suggests monitoring the outcome of the IASB's further deliberations on this issue. If the IASB's forthcoming Conceptual Framework Discussion Paper were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB's proposed definition of an asset is consistent in this respect with the IASB's conclusion on this issue, if known when the IPSASB finalises its chapter on Elements and Recognition. (This comment is made in the context of the AASB's view, as expressed in the covering letter in this submission, that differences between the IPSASB's and IASB's Conceptual Frameworks should be limited to issues that specifically affect public sector not-for-profit entities and warrant a different treatment.)

### ***Guidance on control***

Regardless of whether the IPSASB treats control as part of the definition of an asset or of the recognition criteria for an asset (see comments immediately above), the AASB suggests merging parts (a) and (b) of paragraph 2.6 of the ED (on the meaning of control). This would avoid the problem that sub-paragraph 2.6(b), which is set out as an alternative to sub-paragraph 2.6(a), does not require the entity to obtain benefits from directing other

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<sup>2</sup> As set out in *IASB Update* for April 2013.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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parties regarding the use of a resource, in order to qualify as controlling the resource. For example, the second sentence of paragraph 2.6 could be reworded along the following lines:

“Control of the resource entails the ability of the entity to use the resource (or direct other parties regarding its use) in order to derive the [service potential or<sup>3</sup>] future economic benefits embodied in the resource.”

### Risks and rewards of ownership

The fifth and sixth sentences of paragraph BC16 of the Basis for Conclusions on the IPSASB ED say the IPSASB decided exposure to the risks and rewards of ownership should not be an indicator of control “because it is not compatible with the control approach”. The AASB:

- (a) disagrees with that comment because it seems to be too categorical. That is:
  - (i) the AASB would agree that exposure to the risks and rewards of ownership should not be an essential characteristic of control, because exposure to the risks and rewards of ownership might not be clearly identifiable or might be a less appropriate indicator of control than other indicators; however,
  - (ii) the AASB would not agree that in every instance control would be incompatible with exposure to the risks and rewards of ownership. In some cases, identifying exposure to the risks and rewards of ownership might be useful in assessing whether a resource is controlled; and
- (b) for the reasons given in (a) immediately above, recommends instead that the IPSASB Framework says that, in some instances, exposure to the risks and rewards of ownership might not be clearly identifiable or might be a less appropriate indicator of control than other indicators.

### **Past event**

The AASB considers that every asset of a reporting entity that qualifies for recognition is the result of a past event.<sup>4</sup> However, the AASB considers that *identification* of a past event of the reporting entity should not be necessary for an asset to qualify for recognition (and, consequently, should not be an essential characteristic of an asset). This is because the AASB agrees with the arguments in paragraph 2.46 of the IPSASB’s Consultation Paper (CP) *Elements and Recognition in Financial Statements* (December 2010: see quote below), albeit in the context of recognition criteria for an asset rather than the definition of an asset (because a past event would be one way of associating an asset with a particular reporting entity). Paragraph 2.46 of the IPSASB’s Consultation Paper (CP) said:

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<sup>3</sup> These words in parentheses would apply if the reference to ‘service potential’ in the definition of an asset were retained.

<sup>4</sup> Note that these AASB views refer to assets that qualify for recognition, rather than items that meet the definition of an asset, because, as mentioned above, the AASB considers that factors (such as a past event) that associate an item with an entity should ideally be treated as recognition considerations.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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“Those who contend that a past transaction or event is not a necessary condition for an asset point out the following:

- (a) Past transactions or events may have resulted in assets that no longer exist; and
- (b) The inability to identify a past transaction or event may lead to non-recognition of an asset. Many place undue emphasis on identifying the past event that gave rise to an asset. Although this may be helpful, it may be a distraction and lead to debates about which event is the triggering event instead of focusing on whether the rights to benefits exist at the reporting date.”

Although the AASB thinks a past event should not be an essential characteristic of an asset, it would support:

- (a) emphasising the importance of a past event of the reporting entity as an indicator that an asset of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while
- (b) noting that the existence of a past event does not guarantee that an asset continues to qualify for recognition.

However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project is (consistently with the IPSASB’s proposal) to include a reference to a ‘past event’ in the definition of an asset. The AASB suggests monitoring the outcome of the IASB’s further deliberations on this issue. If the IASB’s forthcoming Conceptual Framework Discussion Paper were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB’s and IASB’s definitions of an asset are consistent in this respect.

### **Other aspects**

#### ***Assets as stores of wealth***

An articulation of the stock of an entity’s wealth (or capital) is important for defining the elements of its financial statements. This is because assets are stores of wealth. Unless the meaning of an entity’s wealth (e.g. invested money capital, current cash equivalents or operating capability) is specified in the Conceptual Framework, the meaning of ‘service potential’<sup>5</sup> or future economic benefits’ will not be identified; consequently, the economic substance of an entity’s assets will not be identified. This point is reiterated here as a reminder of the link between the measurement and elements components of a Conceptual Framework.

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<sup>5</sup> Here, ‘service potential’ refers to a stock, not an inflow, and accordingly its counterpart is described here as ‘future economic benefits’ (rather than ‘economic benefits’).

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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### ***The power to tax or to issue licences***

The AASB notes that, in relation to the power to tax or to issue licences, and to access or restrict or deny access to the benefits embodied in intangible resources, paragraph 2.8 of the IPSASB ED proposes that an asset arises when the power is exercised and the rights exist to receive service potential or economic benefits.

As indicated above, the AASB's view is that assets should be defined without limiting them to items that would necessarily be recognised in financial statements. In addition, the AASB is of the view that the recognition criteria should be separate from definitions of the elements of financial statements. Accordingly, the AASB considers that a government's power to tax or to issue licences, and to access or restrict or deny access to the benefits embodied in intangible resources, should be identified as assets, although assets associated with those powers might not qualify for recognition in the financial statements until an event (such as the exercise of the powers) occurs and the rights can be reliably measured.

The AASB supports the IPSASB's decision not to retain in the ED the CP's reference to a right to tax as a 'perpetual asset'.

### ***Unconditional rights***

The AASB notes that the first two sentences of paragraph BC6 of the Basis for Conclusions on the IPSASB ED indicate that unconditional rights "may give rise to assets, if the entity has paid for them or if the unconditional right has acquired an identifiable value in an open, active and orderly market". The AASB disagrees with this statement because:

- (a) all unconditional rights that represent service potential or future economic benefits should be identified as assets (whether recognised or not); and
- (b) having a cost or strong market evidence of its value is not an essential characteristic of assets, either for assets generally in the IPSASB ED or in the IASB *Framework*.

#### **Specific Matter for Comment 2**

- (a) Do you agree with the definition of a liability? If not, how would you modify it?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

### **Specific Matter for Comment 2(a)**

The AASB generally agrees with the proposed definition of a liability. Its suggestions for modifying the definition (and related guidance) are set out below.

### **Association of an element with the entity**

Consistent with its views regarding the definition of an asset, the AASB considers that, ideally, the definition of a liability should be broad, and (unlike the IPSASB's proposed definition) should exclude factors that associate the element with an entity (such as whether

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity) – such factors should form part of the recognition criteria instead. The reasons for this view of the AASB are given in the comments above on Specific Matter for Comment 1, in the context of the definition of an asset.

However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project is (consistently with the IPSASB's proposal) to include factors that associate the element with an entity in the definition of an asset. Although the latest draft definition of a liability tentatively decided by the IASB does not refer to a particular factor associating that element with an entity—namely, whether there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity (or some other factor compelling such an outflow from the entity)—it might be argued that adding such a reference would be a logical consequence of the above-mentioned tentative IASB decision regarding the definition of an asset. The AASB suggests monitoring the outcome of the IASB's further deliberations on this issue. If the IASB's forthcoming Conceptual Framework Discussion Paper were to propose including factors that associate the element with an entity in the definition of a liability, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB's and IASB's definitions of a liability are consistent in this respect.

### Past event

The AASB considers that every liability of a reporting entity that qualifies for recognition is the result of a past event. However, consistent with its view regarding assets, the AASB considers that *identification* of a past event of the reporting entity should not be necessary for a liability to qualify for recognition. This is because the AASB agrees with the arguments in paragraph 3.40 of the IPSASB's *CP Elements and Recognition in Financial Statements* (December 2010: see quote below), albeit in the context of recognition criteria for a liability rather than the definition of a liability (because a past event would be one way of associating a liability with a particular reporting entity). Paragraph 3.40 of the IPSASB's Consultation Paper (CP) said:

“As with assets, there may be difficulties in requiring the occurrence of a past transaction or event as an essential characteristic:

- (a) The liability arising from a past transaction may no longer exist;
- (b) The inability to identify a past transaction or event may lead to present obligations not being identified. Although an observed transaction or other event might signal that a liability exists, the failure to identify a past event may not negate the existence of a liability at the reporting date; and
- (c) In a public sector context, there may be many possible related past events, making it difficult to identify the key past event. This approach may deflect the discussion away from whether it is an obligation at the reporting date to determining what the past transaction or event was.”

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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Although the AASB thinks a past event should not be an essential characteristic of a liability, it would support:

- (a) emphasising the importance of a past event of the reporting entity as an indicator that a liability of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while
- (b) noting that the existence of a past event does not guarantee that a liability continues to qualify for recognition.

However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project is (consistently with the IPSASB's proposal) to include a reference to a 'past event' in the definition of a liability. The AASB suggests monitoring the outcome of the IASB's further deliberations on this issue. If the IASB's forthcoming Conceptual Framework Discussion Paper were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB's and IASB's definitions of a liability are consistent in this respect.

### **Other aspects**

#### ***Conditional and unconditional obligations***

The AASB is not convinced by the statement in paragraph BC22 of the Basis for Conclusions on the IPSASB ED that:

“distinguishing between conditional and unconditional obligations is not useful for the purpose of defining a liability because it is possible for conditional obligations to give rise to liabilities”.

The AASB notes that the IASB has tentatively decided (in its projects on a review of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and on revenue recognition and insurance contracts) that only unconditional obligations are liabilities, although some unconditional obligations (i.e. obligations to stand ready to transfer economic benefits if an uncertain future event occurs) would be accompanied by conditional obligations to transfer economic benefits. The AASB notes that, in the IASB's Conceptual Framework project, the IASB has tentatively reassessed its previous tentative decision that only unconditional obligations are liabilities (see *IASB Update*, April 2013), and suggests monitoring the outcome of the IASB's further deliberations on this issue and liaising with the IASB with a view to reaching a common conclusion.

#### ***Performance obligations***

The AASB is not convinced by the statement in paragraph BC26 of the Basis for Conclusions on the IPSASB ED that:

“because performance obligations are normally conditional obligations and because the issues in determining whether such obligations give rise to liabilities is (sic)



## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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dependent upon the terms of particular binding agreements and may vary between jurisdictions, it would not be appropriate to use the term ‘performance obligation’ in the Framework”.

The AASB notes that the notion of performance obligations is fundamental to the upcoming IFRS on revenue recognition, and that this aspect will be an issue for the IPSASB if and when it revises its Standards (e.g. IPSAS 9 *Revenue from Exchange Transactions*) in light of that IFRS. Indeed, the AASB is developing an exposure draft (ED) of a Standard for not-for-profit entities based on the IFRS on revenue recognition, and would be willing to share the outcome of that ED with the IPSASB. The AASB recommends that the IPSASB reviews the statement quoted above when finalising its Conceptual Framework chapter on Elements and Recognition.

### **Specific Matter for Comment 2(b)**

As noted above in its comments on Specific Matter for Comment 2(a), the AASB considers that, ideally, the definition of a liability should exclude factors that associate the element with an entity (such as whether there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity). ‘Non-legal binding requirements’ (as referred to in paragraph 3.2 of the IPSASB ED) are another example of factors that associate the obligation with an entity, because they are a mechanism for enforcing performance of the entity’s obligation.

Therefore, the AASB’s comments below on the description of ‘non-legal binding obligations’ [as referred to in Specific Matter for Comment 2(b)]<sup>6</sup> are conditioned by the caveat above.

The AASB generally supports the description of ‘non-legal binding obligations’ in paragraphs 3.10 – 3.12 of the ED. Its main concern is in relation to the related comment in the sixth sentence of paragraph BC32 that:

“In assessing whether a non-legal obligation gives rise to a liability the availability of funding to settle the obligation may be a persuasive indicator.”

The AASB disagrees with that comment. The AASB acknowledges that, in some contracts, the receipt of payment in respect of a promise to perform can be the event that makes that promise unconditional – however, it considers that, even in such cases, it would be unnecessary and inappropriate to focus on funding. Instead, one should focus simply on whether an unconditional promise exists. Moreover, for ‘non-legal obligations’, which need not involve an identified counterparty, it is not clear why funding would be a persuasive indicator of a liability’s existence. (The AASB notes that related paragraph 3.12(c) of the IPSASB ED also discusses the relationship between funding and present obligations, but seems much more equivocal than paragraph BC32 on this issue.)

As a matter of drafting, the AASB suggests referring to ‘binding obligations that are not legally binding’ instead of ‘non-legal binding obligations’. This is because:

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<sup>6</sup> The AASB notes that the wording of the question in Specific Matter for Comment 2(b) differs from the wording of paragraph 3.2, which describes a present obligation.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

- (a) ‘non-legal’ literally means illegal. ‘Illegal’ is apparently not the intended meaning; however, ‘non-legal’ might be translated as ‘illegal’; and
- (b) if the intended meaning is ‘not legally binding obligations’, ‘non-legal’ is less clearly (than ‘legally’) an adjective that pertains to ‘binding’, and thus is less easy to read than the alternative wording suggested above.

### **Specific Matter for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

The AASB’s main concern with the proposed definition of revenue is with its exclusion of ‘increases in deferred inflows’ and inclusion of ‘inflows ... that result from decreases in deferred inflows’ (in parts (a)(ii) and (b), respectively, of the proposed definition). The AASB fundamentally disagrees with identifying deferred inflows as elements of financial statements; if its view were accepted, parts (a)(ii) and (b) of the proposed definition would become irrelevant. The AASB’s reasons for fundamentally disagreeing with identifying deferred inflows as elements of financial statements are set out in its comments on Specific Matter for Comment 5, and are not repeated here. Except for the concerns noted in this paragraph, the AASB generally agrees with the proposed definition of revenue.

For completeness and clarity, the AASB suggests that the definition of revenue specifies the nature of the inflows to which it refers, and that these should be described as ‘inflows of economic benefits’ (as mentioned in its comments above on Specific Matter for Comment 1, the AASB would prefer that ‘service potential’ is not explicitly referred to in the definition of an asset).

### **Specific Matter for Comment 4**

Do you agree with the definition of expenses? If not, how would you modify it?

Similarly to its main concern with the proposed definition of revenue, the AASB’s main concern with the proposed definition of expenses is with its exclusion of ‘increases in deferred outflows’ and inclusion of ‘outflows ... that result from decreases in deferred outflows’ (in parts (a)(ii) and (b), respectively, of the proposed definition). The AASB fundamentally disagrees with identifying deferred outflows as elements of financial statements; if its view were accepted, parts (a)(ii) and (b) of the proposed definition would become irrelevant. The AASB’s reasons for fundamentally disagreeing with identifying deferred outflows as elements of financial statements are set out in its comments on Specific Matter for Comment 5, and are not repeated here. Except for the concerns noted in this paragraph, the AASB generally agrees with the proposed definition of expenses.

For completeness and clarity, the AASB suggests that the definition of expenses specifies the nature of the outflows to which it refers, and that these should be described as ‘outflows of economic benefits’.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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### **Specific Matter for Comment 5**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
  - (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

### **Specific Matter for Comment 5(a)**

The AASB does not support identifying ‘deferred inflows’ and ‘deferred outflows’ as elements of financial statements. Its reasons are discussed below.

#### **Economic phenomena**

The AASB considers that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should recognise only assets and liabilities.

The AASB does not support identifying ‘deferred inflows’ and ‘deferred outflows’ as elements of financial statements because doing so appears to mix economic phenomena and accounting devices (‘deferred inflows’ and ‘deferred outflows’) as elements of the financial statements.

#### **Rationale for deferred inflows and deferred outflows**

The key reason for identifying deferred inflows and deferred outflows as elements seems to be set out in paragraph BC35 of the Basis for Conclusions on the IPSASB ED, which says: “The IPSASB took the view that the definitions of revenue and expenses should reflect the inflows of resources used to finance such<sup>7</sup> goods and services and the outflows of resources related to providing goods and services in the reporting period.” This rationale is elaborated in paragraph BC40, which says:

“Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes. It is therefore important to be able to show separately flows that relate to specified future reporting periods, instead of including them in the Statement of Financial Performance of the current reporting period.”

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<sup>7</sup> This paragraph does not explain which goods and services “such” refers to. It seems to mean the goods and services provided by the public sector entity during the reporting period.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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The AASB has the following concerns with this rationale for identifying deferred inflows and deferred outflows as elements of financial statements:

- (a) it emphasises financing the provision of goods and services; however, financing pertains to funds flows and not when revenue is generated (see the next paragraph below for an elaboration of this concern);
- (b) without applying definitions of assets and liabilities, it seems nebulous to determine when flows “relate” to future reporting periods (this contradicts the virtue of transparency [in defining deferred inflows and deferred outflows as separate elements] claimed in paragraph BC43);
- (c) when inflows of resources are not stipulated to be used to finance particular costs of services, attributing those inflows to particular costs of services would involve arbitrary allocations. For example, inflows of resources from general purpose taxes and grants without stipulations can be applied to meet costs of current period services, repay debts incurred in providing services in previous periods or meet the costs of providing services in future periods. Because cash is fungible, any allocation of those inflows to particular outflows would be arbitrary and intent-driven. The IPSASB ED does not propose allocating inflows without stipulations to future reporting periods, but this means its proposals for deferrals are an incomplete attempt to meet their rationale stated in paragraph BC35;
- (d) the extent to which the cost of providing outputs is recovered by revenue of the same reporting period is useful for users of financial statements of reporting entities in the private and public sectors; therefore, a public-sector-specific reason for identifying such ‘elements’ is not apparent; and
- (e) it does not logically lead to a conclusion that deferred inflows and deferred outflows may only arise in respect of non-exchange transactions (as is specified in the definitions of ‘deferred inflow’ and ‘deferred outflow’ in paragraphs 5.1 and 5.2). The last sentence of paragraph BC45 speaks to this scope limitation, but is merely an assertion. It seems unclear how the IPSASB will deal with hedging and other non-conceptual debits and credits arising from exchange transactions. However, extending the scope of ‘deferred inflows’ and ‘deferred outflows’ to include exchange transactions would appear likely to extend the scope of the concern [noted in (b) above] that, without applying definitions of assets and liabilities, it seems nebulous to determine when flows “relate” to future reporting periods. For example, in relation to redundancy payments made pursuant to exchange transactions for the provision of employee services, it could be particularly difficult to determine to which periods the payments relate. Some might treat redundancy payments as an additional cost of services already received, while others might treat them as a cost incurred to reduce future costs. Either treatment would seem arguable under a deferrals approach.

In relation to (a) above [regarding the ED’s emphasis of funds flows], the AASB observes that the third sentence of paragraph BC45 of the ED refers to stipulations regarding the *expenditure* of a property tax. This focus on stipulated expenditure, in relation to when deferral of revenue ceases, does not seem consistent with the implied goal (in

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paragraphs BC35 and BC40, quoted above) of recognising revenue when related goods and services are provided. Arguably, the approach in paragraph 12 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (namely, recognising ‘tied’ grant income when related assets are consumed, e.g. when depreciation of related assets is recognised) would be more consistent with the rationale for deferrals in paragraphs BC35 and BC40. However, the AASB does not support applying IAS 20, either. It supports using a ‘performance obligations’ approach—consistent with the principles of the forthcoming IFRS on Revenue from Contracts with Customers—to determine when income is recognised in respect of meeting stipulations attached to inflows of resources. The corollary of supporting the use of a ‘performance obligations’ approach is that, if performance obligations or other liabilities (e.g. loans) do not arise in relation to an inflow of resources, the inflow should be recognised as income immediately.

### **Impact on the definitions of ‘revenue’ and ‘expenses’**

Part (b) of the ED’s proposed definitions of ‘revenue’ and ‘expenses’, in paragraphs 4.1 and 4.2, respectively, refer to inflows/outflows during the current reporting period that result from decreases in deferred inflows/outflows. These cater for reversals of deferrals (referred to in paragraph 5.5). However, they raise the question: “Inflows/outflows of what?” Ceasing to defer an inflow or outflow does not necessarily involve an inflow or outflow of service potential or economic benefits; it results from the expiry of a stipulation. For example, expiry of a stipulation over the manner in which a recipient of assets previously transferred by the reporting entity should use those assets does not involve a transfer of service potential or economic benefits to the reporting entity.

Thus, the AASB is concerned that part (b) of each of the definitions of ‘revenue’ and ‘expenses’ incorrectly assumes an inflow or outflow of service potential or economic benefits occurs upon the expiry (reversal) of deferrals. This concern seems closely related to the concern in paragraph AV2 of the Alternative View of Prof. Mariano D’Amore, and demonstrates the difficulty of articulating in the same set of financial statements a deferrals model and a model based on reporting economic phenomena.

### **Potentially asymmetric definitions**

In the context of paragraph 5.3 of the ED, the definition of ‘deferred inflow’ in paragraph 5.1 seems to refer to a transferor’s stipulations regarding the future use of assets it transferred to the reporting entity. The apparent thinking implicit in the notion of ‘deferred inflow’ is that a party external to the reporting entity constrains the reporting entity in relation to assets it holds, without giving rise to a liability of the reporting entity.

Superficially, this aspect of the definition of ‘deferred inflow’ might seem to be mirrored in the definition of ‘deferred outflow’. However, as explained below, in substance the definitions of ‘deferred inflow’ and ‘deferred outflow’ seem asymmetric.

The definition of ‘deferred outflow’ in paragraph 5.2 seems to refer to the reporting entity’s stipulations regarding the future use of assets transferred by it to another entity. The apparent thinking implicit in the notion of ‘deferred outflow’ is that the reporting entity constrains an external party in relation to assets held by that external party, without giving rise to an asset of the reporting entity.

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Whilst a ‘deferred inflow’ (apparently) represents a stipulation over the reporting entity’s assets, a ‘deferred outflow’ (apparently) represents a stipulation over an external party’s assets (specifically, assets that have been sacrificed by the reporting entity). These are substantively different notions, because only one pertains to the reporting entity. Once assets have been sacrificed by the reporting entity, stipulations over another entity’s assets do not pertain to the reporting entity unless they give rise to rights that qualify as assets of the reporting entity (in which case, the question of deferral would not arise).

### **Ambiguities regarding the definitions**

#### ***Specified by whom?***

The definitions of ‘deferred inflow’ and ‘deferred outflow’ in paragraphs 5.1 and 5.2 of the ED refer to “benefits provided ... for use in a specified future reporting period”, without indicating by whom such a future reporting period is specified. For example, the definition of ‘deferred inflow’ could conceivably include economic benefits specified by the entity to be used in a future reporting period, and the definition of deferred outflow could conceivably include economic benefits specified by a recipient to be used in a future reporting period.

#### ***Use of an outflow***

Paragraph 5.2 defines a ‘deferred outflow’ as an “outflow ... provided to another entity or party for use ...”. It is confusing to refer to another entity using an outflow; entities use assets.

### **Other concerns with the Basis for Conclusions**

The AASB is concerned that the second sentence of paragraph BC35 says:

“Including flows as revenue and expenses in one reporting period where there are timing restrictions specifying their use in future periods would be misleading.”

In the context of the qualitative characteristics of financial information set out in Chapter 3 of the IPSASB Conceptual Framework (January 2013), if information were ‘misleading’ it would not be “a faithful representation of the economic or other phenomena that it purports to represent” (paragraph 3.10 refers). However, paragraph BC35 of the Elements ED is discussing the *relevance* of different treatments of timing restrictions. If revenues and expenses were (consistent with the IASB Conceptual Framework) purported to be limited to certain changes in assets and liabilities, it could not be misleading to apply those definitions. In other words, disagreement with a treatment does not make that treatment misleading. Therefore, the AASB thinks it is pejorative to describe an approach that does not include deferrals as ‘misleading’.

### **Assisting the pursuit of common ground**

In its comments on the IPSASB CP on Elements and Recognition, the AASB said it did not consider the so-called ‘revenue and expense-led approach’ (under which deferred inflows

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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and deferred outflows are identified as elements) to be articulated clearly enough to enable proper comparison with the so-called ‘asset and liability-led approach’ (under which deferred inflows and deferred outflows are not identified as elements). The AASB said:

- (a) if the ‘revenue and expense-led approach’ were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails; and
- (b) a ‘revenue and expense-led approach’, properly developed and in a form the AASB would find acceptable, might complement an ‘asset and liability-led approach’.

Unfortunately, the approach involving deferrals is not fleshed out sufficiently in the ED, which includes less explanation of the proposed approach and its implications than in the CP. The AASB is concerned that, due to the lack of articulation of the approach proposed in the ED, respondents to the ED might provide feedback based on misapprehensions regarding the IPSASB’s proposals. Including such an approach in the completed IPSASB Framework could lead to differing interpretations of when deferred inflows and deferred outflows arise.

Consistent with the views expressed above on deferred inflows and outflows, the AASB also does not support consequently identifying net financial position in addition to net assets.

### **Alternative View of Ms. Jeanine Poggiolini**

In relation to the foregoing comments, the AASB agrees with this Alternative View, set out in paragraphs AV7 – AV11.

### **Implications for the future**

Given that Chapter 1 of the IPSASB’s Conceptual Framework says the IPSASB will apply the concepts in that Framework in developing IPSASs, if the IPSASB were to identify deferred inflows and deferred outflows as elements in its completed Framework, that decision would imply the IPSASB would give consideration to amending IPSASs to require recognition of such deferrals. If the IPSASB then decided not to amend IPSASs in that manner, it would need to explain that decision.

Alternatively, the IPSASB could amend IPSASs to permit optional recognition of deferred inflows and deferred outflows as elements. Although such a move might be well received in some jurisdictions considering the adoption of IPSASs, it would undermine the stature of IPSASs in fostering international convergence in public sector financial reporting.

For these reasons, the AASB considers that a decision by the IPSASB to identify deferred inflows and deferred outflows as elements in its completed Framework would have profound implications for that Framework and for IPSASs generally.

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### **Specific Matter for Comment 5(b)**

Because the AASB does not support identifying (and defining) ‘deferred inflows’ and ‘deferred outflows’ as elements of financial statements, it has no additional comments on the questions in Specific Matter for Comment 5(b). The AASB’s comment on Specific Matter for Comment 5(b)(i) is given above in paragraph (e) on page 14.

### **Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

### **Specific Matter for Comment 6(a)**

#### **Net assets**

The AASB agrees with the IPSASB ED’s proposals to not define net assets as an element of financial statements and to describe net assets as a residual amount rather than a residual interest. The AASB considers that, in some circumstances, it would be inappropriate to describe ‘net assets’ as an ownership or residual interest because there are no specifically identified parties to whom the interest would be attributable. Accordingly, its view is that the more inclusive notion of a residual amount should be applied generally in relation to an entity’s net assets, and, as a residual of other elements (namely, assets and liabilities), ‘net assets’ would not represent an element of financial statements in its own right.

#### **Net financial position**

As explained in the comments above on Specific Matter for Comment 5(a), the AASB does not support identifying ‘deferred inflows’ and ‘deferred outflows’ as elements of financial statements and, consequently, does not support identifying net financial position in addition to net assets.

### **Specific Matter for Comment 6(b)**

The AASB agrees with the proposal to define ownership contributions and ownership distributions as elements of financial statements. This is because reference is made to those transactions in the proposed definitions of revenue and expenses.



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### **Specific Matter for Comment 6(c)**

The AASB generally supports the proposed definitions of ‘ownership contributions’ and ‘ownership distributions’ in paragraphs 6.3 and 6.4, respectively, of the ED.

Those proposed definitions, and paragraph 6.5, say ‘ownership contributions’ and ‘ownership distributions’ establish/increase or return/reduce an interest in the entity’s net assets and acknowledge that not all transactions with owners are undertaken in their capacity as owners (i.e. affect their interest in the entity’s net assets). The AASB suggests strengthening that point to provide a more robust reference point by providing examples of transactions with owners that are not undertaken in their capacity as owners, for example, in acting as a lender or customer.

The AASB recommends clarifying the comment in the second sentence of paragraph 6.5 that: “... in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities for no consideration.” In the context of the preceding words in that paragraph, the words quoted above seem to imply these transfers would not be treated as ‘ownership contributions’ and ‘ownership distributions’ (and therefore, by implication, would be identified as revenue, expenses, deferred inflows or deferred outflows of the public sector entity). The AASB recommends that, regarding this important issue, the IPSASB Conceptual Framework should either:

- (a) clarify whether these transfers would be identified as revenue, expenses, deferred inflows or deferred outflows of the public sector entity; or
- (b) indicate that the treatment of these transfers will be addressed at a Standards level. This alternative is the AASB’s preference.

### **Specific Matter for Comment 6(d)**

The AASB considers that the most important aspect of a public sector Conceptual Framework regarding ownership interests is that it acknowledges those interests may arise in relation to (non-GBE) public sector entities, as occurs in paragraph 6.6 of the IPSASB ED. Accordingly, the AASB is not strongly concerned that ownership interests have not been defined in the IPSASB’s Conceptual Framework ED. However, the AASB notes that because ‘ownership contributions’ and ‘ownership distributions’ are defined as inflows and outflows of resources affecting interests in the entity’s net assets, it would be logical to also define those interests in the entity’s net assets.

### **Specific Matter for Comment 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

The AASB notes that, although Section 7 of the ED is headed ‘Recognition Criteria’, no explicit recognition criteria are set out. The AASB recommends including explicit recognition criteria in the IPSASB Conceptual Framework that are neutral, both in:

- (a) requiring a neutral judgement of whether an element exists at the reporting date; and

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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- (b) specifying the same recognition threshold for all assets and liabilities.

The AASB recommends applying the same criteria to both recognition and derecognition of each element. However, at this stage, the AASB considers it is premature, without further proposals by the IPSASB, to indicate how those recognition criteria should be worded.

In relation to ‘measurement uncertainty’, paragraphs 7.5 – 7.6 of the ED do not indicate whether it is possible that no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition. The AASB recommends clarifying the position of the Conceptual Framework on this issue. It would prefer that the Conceptual Framework indicates that, in rare circumstances, such as some legal disputes for unspecified amounts of damages, no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition.

### Other Matter

#### **Remeasurements of assets and liabilities excluded from surplus or deficit for the period**

The AASB recommends amending, or adding to, the proposed definitions of the elements of financial statements to explicitly cater for remeasurements of assets and liabilities that are adjusted directly to net assets, that is, without being recognised in surplus or deficit for the period. This recommendation is explained below.

Because the IPSASB ED’s proposed concept of ‘revenue’ equates to the concept of ‘income’ in the IASB Conceptual Framework, some might expect the definition of revenue to cover asset revaluation increases credited directly to revaluation surplus.<sup>8</sup> However, the ED’s definition of revenue in paragraph 4.1 does not mention ‘enhancements’ (it only includes ‘inflows’). An increase in the fair value of an item of property, plant or equipment or an intangible asset does not seem to qualify as an ‘inflow’ of an asset because no transaction or growth (for example, as occurs with biological assets) has occurred.

Some others might regard revaluation increases or decreases excluded from surplus or deficit for the period as capital maintenance adjustments, because they do not view those revaluation increases or decreases as representing inflows/outflows or enhancements/diminutions of service potential or economic benefits. Instead, they view those revaluation increases or decreases as representing a repricing of the same service potential (i.e. the same capacity to provide services). For them, extending the definition of revenue to include ‘enhancements’ of assets would not cater for these revaluation increases, because they do not think the assets have been enhanced. They argue that the treatment of revaluations of property, plant and equipment and intangible assets under IPSASs and IFRSs implicitly treats the entity’s capital<sup>9</sup> (as reflected, in part, in the service potential of

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<sup>8</sup> For example, those increases in the carrying amounts of property, plant and equipment or intangible assets upon revaluation that are credited directly to revaluation surplus under paragraph 54 of IPSAS 17 *Property, Plant and Equipment* or paragraph 84 of IPSAS 31 *Intangible Assets*.

<sup>9</sup> As mentioned above in the AASB’s comments on Specific Matter for Comment 1, an entity’s ‘capital’ is another term for its wealth.

## IPSASB Conceptual Framework ED on Elements and Recognition – AASB submission

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its assets) as its operating capability (or a similar notion). This is because a change in the price of the same resources does not change the operating capability they embody; and therefore it would be appropriate to exclude that recognised price change from surplus or deficit for the period, which represents the change in the entity's capital (excluding ownership contributions and ownership distributions) recognised for the period. However, the ED does not identify 'capital maintenance adjustments' as elements.

Regardless of which of the views in the two immediately preceding paragraphs is held, it seems revaluations excluded from surplus or deficit for the period are not catered for in the ED's proposed definitions of the elements of financial statements.

Did the IPSASB intend not to cater for revaluations excluded from surplus or deficit in the definitions of the elements of financial statements? If that apparent omission was not intended, the AASB suggests addressing this concern by either amending the definitions of revenues and expenses to refer to enhancements or diminutions of resources, or by identifying capital maintenance adjustments as elements of financial statements.<sup>10</sup> At this stage, the AASB does not have a preference for either solution.

However, the AASB considers that, if the IPSASB were to regard particular remeasurements of assets and liabilities excluded from surplus or deficit for the period as repricing the same service potential or obligations to sacrifice service potential, it would be logical for the Conceptual Framework to treat those remeasurements as capital maintenance adjustments.

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<sup>10</sup> The only item recognised in financial statements that the AASB would not regard as an element is net assets. As noted in the comments above on Specific Matter for Comment 6(a), the AASB considers net assets not to be an element in its own right because it is the residual of the amounts of other elements, namely, assets and liabilities.

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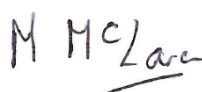
15 May 2013

Dear Stephenie

**Re: ED 2 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.***

1. The Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the above exposure draft. CAPE is an advisory committee to the FRC's Accounting Council, which advises the FRC Board as the UK standard-setter. It should be noted that as the IASB's Conceptual Framework develops so too may the Council and Board's thinking.
2. We reiterate our comments from previous responses to the conceptual framework that we believe that it is important that the differences between the IASB and IPSASB be minimized where possible.
3. We specifically do not agree with the creation of two new elements (deferred inflows and deferred outflows) particularly as these elements will most likely only capture very few items.
4. Our responses to the Specific Matters for Comment are set out in the attached Appendix.
5. If you require any further information please contact Joanna Spencer ([j.spencer@frc.org.uk](mailto:j.spencer@frc.org.uk)) or telephone +44 (0) 20 7492 2428.

Yours sincerely



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**Specific Matter for Comment 1**

Do you agree with the definition of an asset? If not, how would you modify it?

Whilst we can live with the definition of an asset, as indicated in our response to the Consultation Paper on Elements and Recognition in June 2011, we would prefer that assets be defined in terms of the rights to a resource that will provide future economic benefits and not control of the actual resource.

Therefore, we would amend the definition to:

*An asset is a right to a resource that has the ability to provide an inflow of service potential or economic benefits, and which arises from a past event.*

**Specific Matter for Comment 2**

- (a) Do you agree with the definition of a liability? If not how would you modify it?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

(a) Yes - We agree with the definition of a liability.

(b) Although we do not like the term 'non-legal binding obligation' and would prefer the use of 'constructive obligation' we are prepared to tolerate it on the understanding that it would not change the actual application of a constructive obligation

**Specific Matter for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

No - We reiterate our response from June 2011 whereby we believe that elements of financial performance should be defined in terms of changes in net assets (excluding transactions with equity interests) and not in terms of inflows and outflows.

We are also uncomfortable with the use of the term 'revenue' as the general term for all inflows. We believe that the term revenue is understood to be associated with operating activities (i.e. above the line) and therefore could be misunderstood and lead to confusion if it is used in the general way proposed by the IPSASB. Therefore, we would prefer to see the use of a broad term such as 'gains'.

***Specific Matter for Comment 4***

Do you agree with the definition of expenses? If not, how would you modify it?

No – similarly to our response to SMC 3 we also consider that the term ‘losses’ should be used as a general term for outflows in place of expenses.

***Specific Matter for Comment 5***

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

(a) We do not agree with the decision to define deferred inflows and deferred outflows as elements. We are of the opinion that if these items meet the definition of an asset or liability then they should be classified as such and if they do not then they should not be on the balance sheet. It would be better if the definitions of assets and liabilities could be enhanced so as to encompass the (few) items that would fall into the deferred inflow/outflow category.

(b) Not applicable.

**Specific Matter for Comment 6**

- (a) Do you agree with the term net assets and net financial position and the definitions? If not, how would you modify the terms and/or definition?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definition of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

(a) Given our response to SMC 5 (a) we do not agree with the terms ~~'net assets' and~~ 'net financial position' because ~~they~~it encompasses es the deferred inflow/outflow elements.

(b) Yes – we agree with the decision to define ownership contributions and ownership distributions.

(c) Yes – we agree with the definition of ownership contributions provided in practice it was regarded as an interest in the residual. We also agree with the definition of ownership distributions.

(d) Yes we agree with the decision not to define ownership interests.

**Specific Matter for Comment 7**

Do you agree with the discussion on recognition? If not, how would you modify it?

We have no comments to make on the discussion on recognition.