

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Santiago, Chile

Meeting Date: March 10–13, 2015

Agenda Item 8

For:

☐ Approval

☒ Discussion

☐ Information

Government Business Enterprises

Objective(s) of Agenda Item

1. The objective of this agenda item is to:
 - (a) Consider the responses to the Consultation Paper (CP), *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*; and,
 - (b) Seek the IPSASB's views on the way forward

Material(s) Presented

- Agenda Item 8.1 Issues Paper, *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*
- Agenda Item 8.2 Collation and Summary of Respondents' Comments to the CP
- Agenda Item 8.3 List of Respondents and Analysis of Responses by Region, Function and Language

Action(s) Requested

2. The IPSASB is asked to consider the issues raised in the Issues Paper and to:
 - (a) Note the issues raised by respondents on the Preliminary View and Specific Matters for Comment and other comments; and,
 - (b) Provide directions on the further development of this project.

ISSUES PAPER, GOVERNMENT BUSINESS ENTERPRISES**Objectives of this Paper**

1. This Issues Paper, analyzes the responses to the Consultation Paper (CP), *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*, and provides a staff assessment of the issues arising. It seeks direction for the further development of this project, so that, dependent on decisions, a draft Exposure Draft (ED) can be submitted to the IPSASB's June 2015 meeting.

Background

2. The CP was issued in August 2014, with a request for comments by December 31, 2014. As at January 30, 2015, 28 responses had been received. Staff will circulate responses received after that date to members and they will be posted on the website. However, their comments in such responses are not addressed in this Issues Paper.
3. The CP had one Preliminary View (PV) and two Specific Matters for Comment (SMC). Most respondents structured their responses around the two SMCs. Some respondents who supported one option put forward in the CP did not comment on the other options. Other respondents commented on all options, while preferring one option.
4. Staff has classified responses according to whether they support or oppose the proposals in the CP. Where respondents stated that they agreed with the IPSASB's PV, but then raised one or more substantial concerns and suggest changes in one or more areas, staff classified such responses as "partial agreement".
5. These are staff's views only. They do not reflect the views of IPSASB members. Judgment has been applied by staff and, therefore, the analysis in this Issues Paper and the attached collation and summary at Agenda Item x.2 should be read in conjunction with respondents' detailed responses.

Summary of the Consultation Paper

6. The CP considered two approaches to IPSASB's policy on the public sector entities for which it is developing accounting standards and on Government Business Enterprises (GBEs):
 1. Describing the characteristics of public sector entities for which IPSASs are intended. Under this approach GBEs would not be defined. There are two options within this approach:
 - (1a) Using IPSASB's current and developing terminology; or
 - (1b) Using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance; or
 2. Modifying the current definition of a GBE in IPSAS 1, in order to resolve problems in its application. This could be done in two ways:
 - (2a) Clarifying the current definition of a GBE; and/or
 - (2b) Narrowing the existing definition of a GBE.

7. Option 1a relies only on current and developing IPSASB literature to describe the characteristics of public sector entities. Option 1b involves importing a number of terms and explanations from GFS reporting guidelines into IPSASB's literature.
8. Options 2a and 2b are not mutually exclusive. Option 2a could be adopted in conjunction with Option 2b so that the existing definition of a GBE is both clarified and narrowed.
9. The IPSASB's PV is that Approach 1 is the best way forward. A majority of IPSASB members expressed a PV on support for Option 1a.

Structure of this Issues Paper

10. This Issues Paper is structured according to the sequence of the SMCs in the CP. The SMCs are related to IPSASB's PV expressed in the CP. Given that the SMCs are connected to IPSASB's PV, staff's recommendations to IPSASB are after the review of responses to both SMCs.

Review of responses and discussion of issues

Overall Comments

11. There was broad support for the CP from the respondents. Some respondents:
 - (a) Were happy that the IPSASB is reconsidering the applicability of its standards to GBEs and other public sector entities (R1 and R8);
 - (b) Found the issues of the highest interest (R9);
 - (c) Commended the IPSASB for the ongoing efforts in developing specific requirements and guidance for the public sector (R4) and for the proposed analysis and for the description of the two approaches discussed in the CP (R2); and,
 - (d) Considered it important (R11 and R13) and beneficial (R27) to clearly identify the public sector entities that should apply IPSASs.

PV—The IPSASB has expressed a unanimous preliminary view (PV) that Approach 1 is the best way forward. A majority of IPSASB members expressed a PV on support for Option 1a.

SMC 1—Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.

12. There were 28 responses to the CP. 25 respondents agreed with the IPSASB's unanimous PV (R1, R2, R3, R4, R6, R7, R8, R9, R10, R11, R12, R13, R15, R16, R17, R18, R19, R20, R22, R23, R24, R25, R26, R27 and R28), of which twenty-four respondents (R2, R3, R4, R6, R7, R8, R9, R10, R11, R12, R13, R15, R16, R17, R18, R19, R20, R22, R23, R24, R25, R26, R27 and R28) preferred Option 1a and one respondent (R1) preferred Option 1b. Five respondents (R8, R13, R16, R26 and R28), although agreeing with IPSASB's PV, partially agreed with Option 1a.
13. Two respondents (R14 and R21) did not agree with IPSASB's PV. Their responses are analyzed in the section on SMC2 below. One respondent has no clear view (R5).
14. Some respondents presented several additional reasons for supporting Option 1a and a few respondents made several suggestions to amend the description of public sector entities that was in the CP.

Support for IPSAB's PV

15. Respondents provided several reasons for supporting IPSASB's PV and Option 1a. The main reasons were that Option 1a:
- (a) Focuses on describing the characteristics of public sector entities for which IPSASs are intended (R1, R2, R4, R6, R7, R11, R13, R15, R16, R20, R22, R24, R25, R27 and R28);
 - (b) Is a principles-based approach (R1, R3, R4, R6, R7, R9, R11, R15, R18, R20, R26, R27 and R28);
 - (c) Allows flexibility to regulators and relevant authorities (R3, R4, R7, R10, R12, R13, R15, R16, R18, R20, R22, R23, R24, R26 and R27);
 - (d) Is aligned with the Conceptual Framework (R3, R6, R7, R8, R9, R13, R15, R16, R20, R22, R24, R25 and R28);
 - (e) Is relatively easy to understand and apply (R3);
 - (f) Addresses the difficulty of interpreting the current definition of a GBE (R3 and R28) and the lack of flexibility in the current approach, which were key factors in the initiation of the project (R3).

Staff's comments

16. Staff notes that the reasons presented in paragraphs 15(a), 15(b), 15(c) and 15(d) were the same reasons that were in the CP to support Approach 1. R3 identified two more reasons (paragraph 15(e) and 15(f)) to support Approach 1.
17. For all these respondents, the adoption of Approach 1 would not only solve the problems with the GBE definition but would reinforce the objective of IPSASs.

Specific reasons for supporting Option 1a over Option 1b

18. Some respondents that supported the IPSASB's PV gave specific reasons for preferring Option 1a over Option 1b, including:
- (a) Option 1a allows flexibility to regulators and relevant authorities while Option 1b does not allow that flexibility (R2);
 - (b) Option 1b is too rules based (R6) or prescriptive (R13);
 - (c) Option 1b implies the introduction of terms and principles in IPSASs from GFS reporting guidelines that:
 - (i) Serve the objectives and purposes of statistical basis of reporting (R2, R4, R6, R8, R9, R13, R20, R24 and R27), rather than those of IPSASs;
 - (ii) Do not help in classifying entities to the public sector, because regulators and relevant authorities may decide to adopt a different classification (R20);
 - (iii) Rely on third-party literature and classifications, future changes to which are outside the control of the IPSASB, with an impact on IPSASs that would be difficult to control (R4, R12 and R27);

- (iv) Would only be useful and well understood in those jurisdictions that are familiar with the GFS reporting guidelines (R8 and R12);
- (v) Are not consistent with IPSASs terminology (R3, R13, R22 and R24).

Specific reasons to support Option 1b over Option 1a

- 19. R1 stated that Option 1b could provide (optionally) a classification scheme (budgetary entities, extra-budgetary entities, and public corporations) that would meet the segment requirements in IPSAS 18, *Segment Reporting*.
- 20. According to this respondent budgetary entities and extra-budgetary entities would apply IPSASs, public corporations would apply IFRS. This respondent added that the central bank would report separately following IFRS.
- 21. Additionally, R1 stated that the International Monetary Fund (IMF) classifications are:
 - (a) Well laid out in their publications¹ and do not need further clarification;
 - (b) Consistent with United Nation's System of National Accounts and its sectoral classification; and,
 - (c) Are being applied by countries throughout the world.

Alignment between IPSASs and GFS reporting guidelines

- 22. Some respondents, while preferring Option 1a over Option 1b, considered that convergence between IPSAS and GFS reporting guidelines could be achieved in other ways or expressed a view on the financial reporting of General Government Units inside of the General Government Sector (per IPSAS 22, *Disclosures of Financial Information about the General Government Sector*).
- 23. R2 and R20 considered that Option 1a could remain principles-based and still converge with GFS. R4 had the same opinion because it expects that well developed principles under Option 1a would be consistent with GFS.
- 24. R11 expressed a view that General Government Units should apply IPSASs, but acknowledged that GFS reporting guidelines make no statements about the accounting principles to be applied.
- 25. R11 suggested that "the characteristics for public sector entities that are not part of the General Government Sector (GGS) and are not GBEs should be supplemented as follows:
 - (a) The entity's objective is not profit earning (not profit oriented). Certain entities may be financed out of taxes, others not. The method of financing is therefore not a consistent criterion in order to know whether an entity must apply IPSAS.
 - (b) It is possible that in certain cases the entities that apply IPSAS may earn a profit without this being for them a genuine objective. The reason why these entities must draw up their annual accounts in accordance with IPSAS is that, if the entity were repeatedly to suffer losses, the losses would be financed by another public sector entity via a transfer".

¹ Staff thinks that this respondent is talking about the Government Finance Statistics Manual 2014 and the Balance of Payments and International Investment Position.

26. R13 states that description of public sector entities outlined in paragraph 6.13 of the CP (Option 1b) reflects the description of the GGS rather than the public sector under GFS reporting guidelines. Therefore, R13 considered that the description of public sector entities proposed by the IPSASB is at odds with the composition of the public sector under the GFS System. Consequently, this may create confusion over the identification of public sector entities and the boundary of the public sector between the two different reporting frameworks (see paragraph 18(c)(v) above).
27. R19 recognized that many governments have examined the structure of their national entities using the GFS taxonomy and others may do so in the future. R19 suggested that it might be helpful to have bridging guidance which can help governments consider how to use the results of GFS analysis to come to a view on the applicability of IPSAS to categories of entities in their jurisdiction.
28. R20 recommends that some of the GFS terminologies may be included in a revised Basis for Conclusions or additional Implementation Guidance in IPSAS 22, *Disclosure of Financial Information about the General Government Sector* or even as a future Recommended Practice Guideline (RPGs), if the aim is to narrow the gap between GFS and IPSAS.

Staff's Comments

29. Staff notes that while some respondents raised concerns about importing terms and principles from GFS reporting guidelines into the IPSASB's literature (paragraph 18(c)), R19 thought it helpful to bridge the GFS analysis with the applicability of IPSASs to entities in their jurisdiction (R19).
30. Staff also notes that some respondents (R1, R2, R4, R11, R19 and R20) identified a relationship between the applicability of IPSAS to entities and the boundary of GGS, as defined by GFS reporting guidelines. R13 warns about the problems that Option 1b can raise because of different interpretations of what constitutes the "public sector" in IPSAS and GFS.
31. Staff is of the view that providing a high level description of the public sector entities for which IPSASs are intended, allows enough flexibility to regulators and relevant authorities to address these concerns.
32. Regulators and other relevant authorities may take a more flexible approach.
33. The practical consequence of the above paragraphs is that it might lead to entities being inside of GGS and not applying IPSASs or vice-versa. However, this would be a decision for regulators and relevant authorities.

Description of the characteristics of public sector entities

34. The CP presented the following characteristics of public sector entities under Option 1a:
IPSASs are designed to apply to entities that:
 - (a) Are responsible for the delivery of services² to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;
 - (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.

² Services encompasses goods and services.

35. Five respondents (R6, R8, R13, R16, R26 and R28) commented on this description of public sector entities. R6 stated that Option 1a rightly focuses on describing the characteristics of entities for which IPSASs are intended to apply and reflects the concepts and descriptions in the Conceptual Framework.
36. R8 expressed detailed concerns about the description of public sector entities provided in Option 1a. R8 considered that the high-level characteristics will be difficult to interpret and apply in different jurisdictions and suggested that supporting guidance should be provided on certain aspects of these characteristics in order to establishing a clear boundary between public sector entities that should apply IPSASs, and other entities such as GBEs which should apply IFRSs (or a national equivalent).
37. R8 proposes supporting guidance on the following characteristics:
- (a) *Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth.*
 - (i) R8 proposes that supporting guidance could indicate that a public sector entity does not deliver services in the normal course of its business, to other entities (i.e., individuals and non-governmental organizations, as well as other public sector entities outside the reporting entity), with a profit-oriented objective;
 - (b) *Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and,*
 - (i) R8 proposes that the guidance should clarify the nature and basis of the fees that can be charged by public sector entities and should reflect the notion that a public sector entity may charge a fee to recipients of services to recover some or all of the costs of providing the services without the aim of making a profit.

At present, this characteristic merely indicates that a public sector entity is one which is financed directly or indirectly through taxes and transfers from other levels of government. There are many entities that receive funding from government in these forms. For example, some GBEs might receive transfers from government for undertaking certain activities, such as capital projects. What is important is the extent to which an entity is funded by such transfers, as well as the nature of the funding received.

The guidance in paragraph 6.18(d) of the Consultation Paper, which clarifies the terms “not reliant” and “continuing government funding” in relation to the paragraph 6.19(c) of the revised definition under option 2a, could be useful in describing the nature of the funding received. As such, the guidance should explain that a public sector entity will be substantially dependent on continuing government funding to fund its ongoing operations.
 - (c) *Do not have capital providers that are seeking a return on their investments or a return of the investment.*
 - (i) R8 questions whether this requirement provides a solid boundary between a public sector entity and other types of entities because it is unclear what is meant by “do not have capital providers that are seeking a return on their investments”. In particular, whether it is the existence of the capital providers that distinguishes public sector entities from other entities, or that they are not seeking a return;

- (ii) R8 states that the notion of “not seeking a return on their investment” can be difficult to apply because the capital provider can hold the investment for purposes other than to receive a return on its investment. This in itself would not mean that the entity is a public sector entity. R8 gives two examples to illustrate this point:
 - a. In some jurisdictions, there may be entities with capital providers which have surrendered a return on their investments for strategic purposes. For example, a government may invest in an entity that controls ports, railways and other strategic assets/operations, and foregoes returns on its investment on the premise that it is given preferential access to those assets/operations in specific circumstances. The fact that government is clearly not seeking a return does not mean that the other organization is a public sector entity.
 - b. In other instances, there may be capital providers that exist and are theoretically making a return but have elected not to seek that return for policy decisions, for example, to ensure that any returns are used to grow the operations or make the entity more sustainable.
 - (iii) R8 states that clarity is required about whether “capital providers” refers to providers of debt capital or equity capital.
38. R13 notes that “public sector entities” is currently not described in the Handbook of International Public Sector Accounting Pronouncements, 2014 Edition (the Handbook) and that paragraph 4.1 of Chapter 4, *Reporting Entity* of the Conceptual Framework states that:
- “A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs.”*
39. Additionally, R13 states that while Chapter 4 is useful in providing guidance on the purpose of GPFRs in the context of public sector reporting entities, Chapter 4 (or any other section of the Handbook) does not describe the characteristics of a public sector entity. The concept of a public sector entity is therefore left open for interpretation based on a common understanding of the nature of a public sector entity.
40. R13 proposes that paragraph (b) of the description of public sector entities be removed from the definition and that paragraph (a) should be amended as follows:
- “IPSASs are designed to apply to entities whose principal objective is not the generation of profit and that are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth.”*
41. R13 explains that the current wording, by including part (b), appears to exclude self-financing entities and to be designed to capture only entities within the GGS (as stated to be the IPSASB’s intention in paragraph 6.15) in the scope of IPSASs. R13 does not support this view, believing that the scope of IPSASs should not only capture entities that are within the GGS, but also potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation.
42. R13 believes that the principles for applying IPSASs should focus on the nature of the entity’s activities, rather than its sources of funding, which the IPSASB has acknowledged has caused issues with interpretation. Therefore, R13 believes that only part (a) of the description is necessary. R13 considers that this suggestion is supported by the draft Preface to the IPSASB Conceptual

Framework which indicates that “the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a rate of return to investors” (i.e. no reference is made to sources of funding).

43. R13 proposes that a reliance on a characteristic that the entity's principal objective is not the generation of profit provides the main distinction from Approach 2 and establishes a direct point of comparison with the scope of IFRSs.
44. R16 proposes that the introduction of illustrative examples to clarify the description of the characteristics along the spectrum discussed in paragraphs 2.1 and 2.2 of the CP. R16 also suggests clarification about the last part of the text in paragraph 6.8 (b): “IPSASs are designed to apply to entities that... (b) ... do not have capital providers that are seeking a return on their investment or a return of the investment.”
45. For R16 characteristic (b) indicates how activities are funded and addresses the objective of the resource providers. R16 agrees that the primary objective of the entity should be to provide a public service (as described under paragraph 6.8 (a)), but there may be instances where resource providers also impose a secondary objective on the entity of making its best efforts to make some (minimal) profit, without putting into question the fact that any losses would continue to be compensated/funded by the resource providers. R16 therefore suggests that it be clarified that not seeking a return on investment is not at odds with an objective of achieving the best possible financial outcome, as any profit may be used by the entity in furtherance of its service delivery objectives. The key factor is that capital providers do not seek a return in the form of a dividend or in any other form on the capital they have provided.
46. R16 is of the view that such a clarification could avoid incorrect decisions on scope of IPSASs by excluding those entities which satisfy all the characteristics described in paragraph 6.8 but have capital providers who might encourage minimal profit-making as a secondary objective of an entity's activities.
47. R26 sought clarification whether the entities that should apply IPSASs should satisfy either one or both of the characteristics in Option 1(a). The scope of Option 1a will depend on whether the characteristics are mutually exclusive or combined. R26 proposes the words “and/or” to be added between characteristics (a) and (b).
48. R26 says that in his country, the capital providers of the entities that deliver services to the public usually do not seek a return on their investment or a return of the investment during the initial years of the entities' operation. This is normally because entities are start-up corporations and are unable to generate revenue during the initial years. However, a capital provider's intention might change when an entity is able to operate independently and consistently make profits due to higher economies of scale and efficient processes. Therefore, R26 seeks clarification whether such entities should continue applying IPSASs.
49. R28 believes that the characteristics in paragraph 6.8 of the CP may need some revision, as not all public sector entities provide services directly to the public as indicated in 6.8(a), e.g. they may provide services to other public sector entities.

Staff's comments

50. R8 and R16 suggest including supporting guidance and examples on the characteristics of public sector entities (see paragraph 37 and 44). Staff is of the view that supporting guidance about those

characteristics should be based on the Conceptual Framework and especially the Preface to the Conceptual Framework (the Preface).

51. In this context, the Preface has a section on *The Nature and Purpose of Assets and Liabilities in the Public Sector* that can be used as guidance about the first characteristic.
52. In the context of the second characteristic, the Preface has a section about *The Volume and Financial Significance of Non-Exchange Transactions* that can also be used as guidance about the second characteristic.
53. R8 (see paragraph 37), R16 (see paragraphs 44-46) and R26 (see paragraphs 47-48) make several comments about the wording “*Do not have capital providers that are seeking a return on their investments or a return of the investment*”. Staff thinks that these points can be addressed by using wording from the Preface.
54. Staff notes that paragraph 2 of the Preface states that:

“*The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors.*”
55. Staff is of the view that this wording can be inserted in the second characteristic of Option 1(a), as follows:

“Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have a primary objective to make profits and generate a return on equity to investors ~~capital providers that are seeking a return on their investment or a return of the investment.~~”
56. Staff agrees with R26’s proposal (see paragraph 47) to add the words “and/or” between characteristics (a) and (b). Staff is of the view that in this way it also addresses R28 concerns (see paragraph 49).
57. R13 is of the view that the scope of IPSASs should capture entities that are within the GGS and potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation (see paragraph 41) and no reference should be made to the sources of funding (paragraph 42). Therefore, R13 suggests changes to the description of public sector entities as identified in paragraph 40.
58. However, staff is of the view that the description of public sector entities in the CP should be retained with the amendments recommended by staff in paragraph 55 and 56, for the following reasons:
 - (a) Option 1a has no relationship with GFS reporting guidelines; and,
 - (b) The Preface has a section, *The Volume and Financial Significance of Non-Exchange Transactions*, which can be used as the basis of guidance about the nature of activities and sources of funding of public sector entities.
59. In relation to R28’s concern about a public sector entity providing services to other public sector entities and not only to the public, staff is of the view that these types of entities should also be assessed over whether they provide such services with a view to a return to investors.

Future of GBE definition in Approach 1

60. Two respondents (R2 and R20) requested a clarification of the future of the GBE definition in IPSAS 1 and proposed that there is a discussion in the Basis for Conclusions.

Staff's Comments

61. Staff notes that paragraph 6.5 of the CP states that:

“Option 1a is based on current and developing IPSASB literature and describes the characteristics of public sector entities for which IPSASs are intended. Under this approach the IPSASB would not formally define GBEs. It would describe the characteristics of public sector entities, for which the IPSASB is developing IPSASs. This approach is consistent with the approach taken by the IASB for profit-oriented entities described in section 4. Such an approach will reflect the concepts and descriptions in the Conceptual Framework.”

62. This means that the under Option 1a the IPSASB would replace the definition of a GBE with the characteristics of public sector entities in IPSASB's literature. Staff proposes to remove the GBE definition from IPSAS 1, but include a reference in the basis for conclusion of IPSAS 1 to explain the changes to the standard rather than to provide authoritative guidance.

SMC 2—If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.

63. SMC 2 only applied to those respondents who did not support the PV. Two respondents (R14 and R21) did not agree with IPSASB's PV.

64. These respondents gave the following reasons for not supporting Approach 1:

- (a) Different criteria used by different national regulators will defeat efforts aimed at convergence and international harmonization, leading to difficulty in achieving the qualitative characteristics of comparability (R14), or affecting it adversely (R21);
- (b) Determining the appropriate reporting framework in some countries requires a capacity that may not be available (R14)
- (c) Option 1a does not provide guidance on borderline cases (R14);
- (d) Reduction in unnecessary differences between IPSAS and GFS in Option 1b can be achieved by amending IPSAS 22 (R14);
- (e) Need to vary the approach because there are so many complexities that surround Public Sector Entities which are absent in Private Sector Entities (R21).

65. R14 supports option 2b for the following reasons:

- (a) Companies that are in business to recover costs are not profit oriented and, therefore, should be excluded from the GBEs definition;
- (b) Is more consistent with IFRS approach because if a GBE is profit-oriented then it should apply IFRS;

66. R21 supports a combination of Option 2a and 2b. This respondent proposes the following definition of a GBE:
- (a) Has been assigned the financial and operational authority and autonomy in legislation or governance documentation to carry on a business [from Option 2a] – because “authority” does not necessarily imply “autonomy” as it is possible for an entity to have authority without autonomy, since autonomy signifies “independence” while authority signifies “power”. It is possible for an entity to have powers that are subject to undue interference;
 - (b) Delivers services, in the normal course of its business, to individuals and non-government organizations as well as other public sector entities outside the reporting entity at a profit or to achieve recovery of all fixed and variable costs of the reporting period [from Option 2a];
 - (c) Can prepare its financial statements on a going concern basis without being reliant on any continuing government funding or other forms of direct or indirect financial support from government on a perpetual basis (other than purchases of outputs at arm’s length). Such funding or financial support includes concessionary loans, government guarantees and grants for meeting community service obligations; unless such financial support are considered as addition to equity or debt [from Option 2b] – to recognize the fact that government could support a GBE for a period of years to enable it stabilize financially and operationally. Such financial assistance does not continue perpetually. The latest change is to recognize the fact that GBEs could also benefit from government intervention funds (as may be akin to bailout) where the need arises to save strategic GBEs from collapse. If such supports are treated as addition to equity or debt, then the funds are not “free funds”, and therefore should be accommodated in the definition of GBE.
 - (d) Is controlled by a public sector entity [from Option 2a].
67. The reasons why R21 proposes this combined option are:
- (a) GBEs are established by law with clearly spelt out objectives, functions and powers;
 - (b) It reduces divergent practices and promotes comparability;
 - (c) It provides clear definitions of GBEs and also clarified the concept of full recovery cost;
 - (d) The definition of GBEs is not restricted to entities with a profit-oriented objective; and
 - (e) It is more explicit about what "reliant on continued government funding" means.
68. However, R21 acknowledges that Approach 2 would not eliminate possible inconsistencies in applying the definition. Therefore, its impact might be limited and it would only partially resolve problems and ambiguities in the definition of a GBE.

Staff’s comments

69. Staff is of the view that most of the reasons that respondents identified for not supporting IPSASB’s PV can also be applied to Approach 2. In fact, regardless of the approach adopted by the IPSASB, regulators can always develop their own criteria on the applicability of IPSASs to public sector entities (as in the case of New Zealand identified by R6). Such criteria may include rules for borderline cases. These criteria can also vary between countries according to different regulatory arrangements and the resource capacity available.

70. Staff does not support the argument that the specificity of public sector entities justifies a different approach from that of the IASB because, with its recent approval, the Conceptual Framework provides a good basis for identifying the public sector entities for which the IPSASB is developing IPSASs.
71. Staff is of the view that, despite efforts to increase alignment between IPSAS and GFS, differences will remain. IPSAS 22 will remain valid even if all entities inside GGS apply IPSASs, as differences in areas like recognition and measurement will remain.

Staff Recommendations

Approach 1 or Approach 2

72. Staff notes that there was overwhelming support from respondents (89%) for IPSASB's unanimous PV proposing describing the entities for which IPSASs are appropriate, rather than continuing to define GBEs. Respondents not only agreed with the reasons for IPSASB's PV in the CP, but provided further reasons that reinforced the IPSASB's PV.
73. Conversely, adopting Approach 2 not only fails to address the problems that staff identified in paragraphs 69 and 71, but also precludes the benefits that IPSASB and other respondents identified in relation to Approach 1 (see paragraph 15).
74. Therefore, staff recommends that the IPSASB adopts Approach 1 in the further development of this project.

Matter(s) for Consideration

1. The IPSASB is asked to indicate whether it agrees with the staff's recommendation to adopt Approach 1 in the further development of this project or provide alternative directions.

Option 1a or Option 1b

75. If IPSASB agrees with staff's recommendation to adopt Approach 1, then there is a need to choose which of the options identified in the CP should be the way forward.
76. Staff notes that there was an overwhelming support from respondents (92%) for Option 1a rather than Option 1b (4%). Staff agrees with the reasons that respondents provided in support of Option 1a over Option 1b (see paragraph 18 above). Selecting Option 1a also avoids the problems identified by respondents in relation to Option 1b. Therefore, staff recommends IPSASB proceeds with Option 1a in the future development of this project, complemented by the amendments suggested in paragraph 55 and 56.

Matter(s) for Consideration

2. If IPSASB agrees with staff's recommendation to adopt Approach 1, the IPSASB is asked to indicate whether it agrees with the staff recommendation to adopt Option 1a in the further development of this project or provide alternative directions.
3. If IPSASB agrees with staff's recommendation to adopt Option 1a, staff recommends that the IPSASB:

a) Modifies the description of public sector entities as follows:

IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of services³ to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth; and/or,
- (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have a primary objective to make profits and generate a return on equity to investors ~~capital providers that are seeking a return on their investment or a return of the investment.~~

b) Removes the GBE definition from IPSAS 1 and references and guidance from the suite of IPSASs and the Preface;

c) Include a reference to GBEs in the basis for conclusion of IPSAS 1 just to explain the changes to the standard and without any authoritative guidance.

Next steps

77. If IPSASB agrees with staff's recommendation to adopt Option 1a with the modifications proposed by staff, then there is a need to assess the implications in IPSASB literature.

78. Staff identified several implications:

- (a) Revision to the *Preface to International Public Sector Accounting Standards*;
- (b) Deletion of the definition of a GBE and supporting grey letter paragraph 12 in IPSAS 1; and,
- (c) Deletion of black letter and grey letter reference to GBEs in other IPSASs, Recommend Practice Guidelines and Studies.

79. Staff proposes to bring in the June 2015 meeting a detailed analysis of the consequential changes to IPSASB's literature and discuss whether this project is to be progressed through a single ED or as part of the biennial Improvements cycle.

Matter(s) for Consideration

4. The IPSASB is asked to note that staff will bring in the June 2015 meeting:

- a) A detailed analysis of the consequential changes to IPSASB's literature; and,
- b) Discuss whether this project is to be progressed through a single ED or as part of the biennial Improvements cycle.

³ Services encompasses goods and services.

RESPONDENTS' COMMENTS TO CONSULTATION PAPER, *THE APPLICABILITY OF IPSASs TO GOVERNMENT BUSINESS ENTERPRISES AND OTHER PUBLIC SECTOR ENTITIES*

Response #	Respondent Comments	Staff Comments
Overall Comments		
01	<p>The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultative Paper (CP) on the <i>Applicability of IPSASs to Government Business Enterprises (GBEs) and Other Public Sector Entities</i>. We are pleased that the IPSASB is reconsidering the applicability of its standards in this area.</p> <p>Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a <i>broad array of financial management practitioners</i> (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this consultative paper is one from an international perspective.</p>	Support for CP.
02	<p>The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Consultation Paper <i>The Applicability of IPSASsTM to Government Business Enterprises (GBEs) and Other Public Sector Entities</i> published in August 2014.</p> <p>We commend the IPSASB for the proposed analysis and for the description of the two approaches discussed in the Consultation Paper.</p> <p>While we understand the IPSASB's will to take on the responsibility to insure transparency about the types of entities to which IPSASs should apply, we note that, in France, the law, or other legislative text (decrees, etc.), requires the use of public sector accounting principles for general government entities with very few exceptions and border line cases.</p>	<p>Support for CP.</p> <p>Broad support for CP proposals.</p>

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>As to the approach retained in the Consultation Paper, we think that characterising public sector entities with a view to identify those entities that should apply IPSASs is a more positive way forward than defining GBEs in order to state that they are entities that should not apply IPSASs.</p> <p>Therefore, we believe that approach 1 is the relevant path forward. It also paves the way to what is to us a fundamental approach in public sector accounting standard-setting: that of identifying those specificities of the public sector that may entail departures from the private sector accounting standards.</p> <p>In addition, we observe that option 1a <i>Using IPSASB's current and developing terminology</i> is the approach that reflects best current practice in France as it leaves room for regulators and relevant authorities to decide on border line cases.</p> <p>For the reasons above, we concur with the IPSASB's preliminary view that approach 1, and more specifically sub-option 1a, is most appropriate.</p> <p>Because the comments requested are of a choice between the two approaches set out in the Consultation Paper, we did not feel the need to specifically answer specific matter for comment 2. Details of our response to specific matter for comment 1 are set out in the appendix.</p>	Support for IPSASB's PV.
03	<p>Thank you for the opportunity to provide input on the Consultation Paper, <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i>.</p> <p>Overall, PSAB staff supports the IPSASB's preliminary view. Responses to the Specific Matters for Comment are set out in the Appendix to this letter and represent the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).</p>	Support for IPSASB's PV.
04	<p>The 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 <i>Consultation Paper (CP) – The Applicability of IPSASs to Government Business Enterprises (GBEs) and Other Public Sector Entities</i>.</p>	Support for CP.

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.</p> <p>HoTARAC commends the IPSASB's ongoing efforts in developing specific requirements and guidance for the public sector. HoTARAC is supportive of IPSASB's CP as it proposes a worthwhile clarification on the range of entities for which IPSASs are intended. In Australia we adopt a transaction neutral approach by applying Australian equivalents to International Financial Reporting Standards (IFRSs) and do not adopt IPSASs. However, IPSASs inform future standard and policy setting and sometimes are used as guidance by financial statements preparers in the absence of specific IFRS equivalent requirements.</p> <p>HoTARAC agrees with IPSASB's preliminary view (PV). The attachment to this letter sets out HoTARAC's comments on each Specific Matter for Comment.</p>	<p>Broad support for CP proposals.</p> <p>Support for IPSASB's PV.</p>
06	<p>The External Reporting Board (XRB) of New Zealand welcomes the release of the Consultation Paper and thanks the International Public Sector Accounting Standards Board (IPSASB) for the opportunity to comment.</p> <p>The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand.</p> <p>Background</p> <p>The XRB has recently established a new Accounting Standards Framework based on a multi-sector, multi-standards approach. For-profit entities in New Zealand have, since 2005-2007, been using standards that are effectively International Financial Reporting Standards (IFRS). Public benefit entities (PBEs) now report using PBE Standards which are based on International Public Sector Accounting Standards (IPSAS).</p> <p>In adopting IPSASs for PBEs, the XRB did not adopt the IPSASB's definition of Government Business Enterprises (GBE) to determine which entity should apply PBE Standards mainly because of the types of issues with the GBE definition that have been highlighted in the Consultation Paper. The XRB did not consider that the definition appropriately identified the entities that should apply PBE Standards.</p>	<p>Accounting standards for public benefit entities based on IPSASs.</p> <p>Do not adopt the GBE definition. The criteria do determine which accounting a PBE should apply is based</p>

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>Under the Accounting Standards Framework in New Zealand, entities designate themselves as either for-profit entities or PBEs. In New Zealand, PBEs are reporting entities whose primary objective is to provide goods and services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. Appendix A When is an Entity a Public Benefit Entity to Standard XRB A1 Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update) provides the necessary guidance to assist the entities to make this designation. Whether an entity is a PBE is determined by the primary objective of the entity. The guidance provides a series of indicators (and examples) that focus on the substance of an entity's purpose and which an entity should consider in determining whether it is a PBE. These indicators are:</p> <ul style="list-style-type: none"> • The entity's founding documents; • The nature of the benefits; • The quantum of expected financial surplus; • The nature of the equity interest; and the nature of an entity's funding. <p>The guidance acknowledges that, in some instances, there may be conflicting indicators and professional judgement is required.</p> <p>The New Zealand approach is similar in principle to that proposed by the IPSASB as Option 1a. Accordingly, the XRB strongly supports this option because it is appropriate that regulators and other relevant authorities should determine which entities should apply IPSASs within individual jurisdictions.</p>	<p>on the primary objective of the entity.</p> <p>Strong support for Option 1a.</p>
07	<p>The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Comments on Consultation paper, the applicability of IPSASs to Government Business Enterprises (GBEs) and other public sector entities, issued by the International Public Sector Accounting Standards Board (IPSASB) issued on 17th August 2014, with the comment period closing on 31st December, 2014.</p> <p>As pointed out in paragraph 3.18 the objectives of financial reporting and the primary users of financial reports differ for entities that have primarily a service delivery objective and those that are primarily profit-oriented. The inappropriate classification of a public sector entity can lead to the application of financial reporting standards that</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>may include unsuitable requirements. This can impair the quality of the financial information for users and, therefore, undermine the ability of the information to meet the objectives of financial reporting. We therefore, commend the IPSASB on its efforts towards developing this consultation paper so that guidance could be provided to users</p> <p>The Institute deliberated the ED and our responses to specific questions are as follows:</p>	<i>(Comments relate to SMCs 1 and 2.)</i>
08	<p>We welcome the opportunity to comment on the Consultation Paper on The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities.</p> <p>Overall, we are supportive of the IPSASB's reconsideration of its policy on the applicability of IPSASs to GBEs and other public sector entities.</p> <p>There was support amongst our stakeholders for the preliminary view expressed by the IPSASB, with clear support for Option 1(a), and no support for Option 1(b). A number of issues were however identified with each of the options. These issues, along with our proposals, are reflected in the responses to the specific matters for comment and the preliminary view. These are included as Annexure A to this letter.</p> <p>The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating our comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.</p>	<p>Support for CP.</p> <p>Support for IPSASB's PV.</p>
09	<p>The Swedish National Audit Office (Swedish NAO) would like to thank for the opportunity to comment on the applicability of IPSASs to Government Business Enterprises (GBEs) and other public sector entities. The issues is of the highest interest and affect how the IPSAS are used and applied in the public sector. Unclear definitions could cause avoidance to apply IPSAS, where otherwise relevant.</p>	Support for CP.
10	<p>The IDW appreciates the opportunity to respond to the Consultation concerning the applicability of IPSASs to government business enterprises and other public sector entities (GBEs) (hereinafter referred to as "the Consultation").</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
11	The SRS-CSPCP welcomes that the IPSAS Board is communicating its view on the entities to which IPSASs apply and to which they do not apply. It is important that all entities that are defined as public sector entities and are not Government Business Enterprises apply the same accounting principles and potentially IPSAS. In this way the consolidation work can be simplified. Consequently it is necessary to clarify to which public entities that are not GBEs the IPSAS apply.	Support for CP.
12	The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IPSASBs Consultation Paper <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i> .	
13	<p>Please find enclosed the Australasian Council of Auditors-General (ACAG) response to the above Consultation Paper. The views expressed in this submission represent those of all ACAG members within Australia, New Zealand, Papua New Guinea and Fiji.</p> <p>ACAG supports the endeavours of the International Public Sector Accounting Standards Board (IPSASB) to enhance guidance and clarify the application of International Public Sector Accounting Standards (IPSASs) to public sector entities. Overall ACAG agrees with the IPSASB's preliminary view that Approach 1 is the best way forward. This approach removes the need to define Government Business Enterprises (GBEs) in IPSASs.</p> <p>In particular, ACAG is of the view that Option 1(a) is most appropriate having regard to the IPSASB's ultimate objective of consistent application of IPSASs to the public sector entities for which they are intended.</p> <p>However, ACAG proposes modifications to the characteristics of public sector entities for which IPSASs are intended as outlined in paragraph 6.8 of the Consultation Paper. The proposed modifications would provide a wider scope for intended public sector entities that can apply IPSASs. ACAG believes that the scope of IPSASs should not only capture entities that are within the General Government Sector (GGS), but also potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation.</p>	<p>Support for CP.</p> <p>Support for IPSASB's PV.</p> <p>View that characteristics in CP should be modified.</p>
14	We are pleased to comment on the above Consultation Paper as follows:	(Comments relate to SMCs 1 and 2.)

Response #	Respondent Comments	Staff Comments
Overall Comments		
15	Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on the above consultation.	
16	<p>We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on the Consultation on the Applicability of IPSASs to Government Business Enterprises and Other Public Entities (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Consultation Paper. "PricewaterhouseCoopers" or 'PwC' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.</p> <p>We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency, and transparency of public sector financial reporting worldwide.</p> <p>The Consultation Paper on the Applicability of IPSASs to Government Business Enterprises and Other Public Entities (GBEs) is important as it addresses the specific characteristics of entities that should prepare the financial statements in accordance with IPSAS.</p>	Support for CP.
17	I am Denise Juvenal this pleasure to have the opportunity to comment on this consultation about The Applicability of IPSASs™ to Government Business Enterprises and Other Public Sector Entities at International Public Sector Accounting Standards (IPSASs). This is my individual commentary for IFAC-IPSASb.	
18	<p>We refer to the IPSASB Consultation Paper, <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i>, issued by the International Public Sector Accounting Standards Board ("IPSASB") of the International Federation of Accountants ("IFAC").</p> <p>In this regard, we are pleased to attach the Institute's comments as set out in Appendix I for your consideration.</p>	
19	CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.	Support for CP.

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>In successive responses, CIPFA has strongly supported 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.</p> <p>In line with the above, in recent years CIPFA has also supported the development of a public sector Conceptual Framework, to provide a rigorous underpinning for the development of future IPSASs, and to inform stakeholder understanding and interpretation of the existing body of standards. Against this background CIPFA was very pleased when IPSASB announced in October that it had completed and published the Framework.</p> <p>The topic of applicability of the framework itself is, appropriately, addressed in the framework document. Paragraph 1.8 of Chapter 1 states that:</p> <p>The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFRs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:</p> <ul style="list-style-type: none"> • Government ministries, departments, programs, boards, commissions, agencies; • Public sector social security funds, trusts, and statutory authorities; and • International governmental organizations. <p>This drafting seems fairly natural. The framework applies to reporting by entities which are using IPSASs, and some examples of the types of entities which might apply IPSASs are provided. The framework does not specify whether particular entities should or should not apply IPSAS – this is not something on which IPSAS has any regulatory or other power to enforce. Thus the framework gives an indication of the types of entity for which it is designed and might reasonably be hoped to provide a good basis for financial reporting.</p> <p>In contrast, the Preface to the Handbook of extant IPSASs contains more specific material on the applicability of IPSASs, suggesting that they should be not be applied to Government Business Enterprises (GBEs), and that for these entities IFRS should be applied. A definition of GBEs is provided in IPSAS 1, and the instruction on the inapplicability of IPSAS to GBEs and the applicability of IFRS is repeated in the introductory material to each of the individual IPSASs.</p>	<p>General support for PV and for rationale for change from current approach.</p>

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>Providing very specific guidance on applicability may have seemed very natural from the perspective of IPSASB's previous formulation as the IFAC Public Sector Committee, which was starting with a clean sheet. However, on reflection we concur with IPSASB in thinking that this is not the most helpful approach, given that IPSASB has no power to specify or regulate the standards frameworks applied by public sector entities of whatever type. The variety of interpretations which can be placed on Government Business Enterprise further reinforces our view that this is not the most helpful approach.</p> <p>We are therefore more inclined to support a framing in which IPSASB explains the target for its standard setting activity, and leaves detailed questions of which standards to adopt for different entity types to the relevant decision making authorities.</p>	
20	<p>The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Consultation Paper (CP) - the Applicability of IPSASs™ to Government Business Enterprises and Other Public Sector Entities, issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC.</p> <p>We commend the IPSASB for the proposed analysis and for the description of the two approaches discussed in the Consultation Paper. We believe that characterising public sector entities with a view to identify those entities that should apply IPSASs is a more positive way forward than defining GBEs in order to state that they are entities that should not apply IPSASs. We therefore support approach 1 as it paves the way to what is to us a fundamental approach in public sector accounting standard-setting: that of identifying those specificities of the public sector that may entail departures from the IFRSs. Specifically, we observe that option 1a Using IPSASB's current and developing terminology is the approach that reflects best current practice as it leaves room for regulators and relevant authorities to decide on border line cases.</p> <p>We have included our responses to each of the Specific Matters for Comment in an appendix to this letter.</p>	<p>Support for CP.</p> <p>Support for IPSASB's PV.</p> <p><i>(Comments relate to SMCs 1 and 2.)</i></p>
21	<p>Association of National Accountant of Nigeria (ANAN) is very pleased to comment on the above-mentioned Exposure Draft on IPSAS 7 and 8.</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
23	The Inter-American Accounting Association (AIC – in Spanish), welcomes the opportunity to comment on the Consultation Paper “The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities.”	
24	<p>This consultation paper (hereinafter mentioned as CP) deals with the applicability of IPSASs to Government Business Enterprises (GBEs) and other public sector entities. Currently, IPSAS 1 defines the term GBE but each IPSAS specifically excludes GBEs of its scope. Indeed, GBEs must apply International Financial Reporting Standards (IFRSs).</p> <p>As this definition does not enable to address all types of public entities commonly named GBEs across national jurisdictions, DGFIP acknowledges the need for an in-depth consideration and therefore welcomes the global analysis emerging from the CP.</p> <p>Describe the characteristics of public sector entities for which IPSASs are intended (Option 1) or define the GBEs, while at the same time, each IPSAS specifically excludes them (Option 2) are the two opposite approaches considered by the CP.</p> <p>Describing the characteristics of the public sector entities seems to us a pragmatic and functional approach. Using the Conceptual Framework in the preliminary view highlights its meaning (option 1a).</p> <p>Furthermore, the notion of “public entity” is not uniform and covers different structures which can vary across national jurisdictions. For borderline cases, namely for cases submitted for interpretation, more flexibility is needed. Therefore national regulators should have discretionary powers in order to determine the appropriate accounting standard.</p> <p>Moreover, as pointed out in our previous comments, an alignment between IPSASs and government financial statistics (GFS) does not appear relevant. Thus, in an accounting standard, the description of public sector entities must be based on general accounting concepts rather than GFSs concepts.</p> <p>Consequently, this leads us to support Option 1a.</p>	<p>Support for CP.</p> <p>Support for IPSASB’s PV.</p> <p>View that definition of GBE useful in borderline cases and should be retained in Basis for Conclusions.</p> <p>View that consolidation insufficiently addressed. Staff does not think that the purpose of this project is to discuss consolidation issues</p>

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>However, in our opinion the current definition of GBEs could provide clarification in some borderline cases, and therefore, should be maintained in the basis for conclusions of IPSAS 1.</p> <p>Lastly, it would be useful if the analysis and iterative discussions of the IPSASB on this topic would take into account the consolidation issues. For us, the matter of consolidated accounts for public sector entities raises the critical issue of the scope definition. As regards the definition of the scope for consolidation, GBEs is a key issue.</p> <p>Therefore, DGFIP regrets that neither in the IPSASB consultation issued in October, 2013 on consolidated accounts, nor in this CP, these critical issues aren't addressed.</p>	
25	The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on Consultation Paper "The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities" ("CP") as follows.	
26	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") Consultation Paper ("CP") The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities.	
27	<p>Thank you for the opportunity to comment on the Consultation Paper – The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities. We agree with the IPSASB that it would be beneficial to provide greater clarity on the applicability of IPSASs to Government Business Enterprises (GBEs) and other public sector entities.</p> <p>We agree with the IPSASB's preliminary view that Approach 1 is most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended and that approach will be useful to the IPSASB when setting standards. This approach is also helpful for regulators and other relevant authorities in determining which entities should apply IPSASs, and of assistance to preparers. We support Option 1a as it uses principles based on IPSASB's current and developing terminology that focus on the characteristics of public sector entities and will determine when IPSASs should be applied.</p>	<p>Support for the CP.</p> <p>Support for IPSASB's PV.</p>

Respondents' Comments on SMCs in CP, *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*
IPSASB Meeting (March 2015)

Response #	Respondent Comments	Staff Comments
Overall Comments		
28	<p>Thank you for the opportunity to comment on the Consultation Paper – <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i> that was issued in August 2014.</p> <p>The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of GAAP.</p>	IPSASs are an important secondary source of GAAP for Canada.

SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.

Table 1: Overview of Responses to PV

View on PV	Respondent #	Totals
Agree	01, 02, 03, 04, 06, 07, 08, 09, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 27, 28	25
Disagree	14, 21	2
No clear view	05	1
Total Respondents		28

Table 2: Overview of Responses to SMC1 (Respondents agreeing with PV or expressing no clear view only)

View on Option 1a and Option 1b	Respondent #	Totals
A. Supports Option 1a	02, 03, 04, 06, 07, 09, 10, 11, 12, 15, 17, 18, 19, 20, 22, 23, 24, 25, 27	19
B. Partially supports Option 1a	08, 13, 16, 26, 28	5
C. Supports Option 1b	01	1
D. No clear view	05	1
Total Respondents		26

Table 2: Table of Responses SMC 1

Response #	PV	SMC 1	Respondent Comments	Staff Comments																												
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.																																
01	Yes	C	<p>We agree that the IPSASB should limit its review to describing the characteristics of public sector entities for which the IPSAS are intended (Approach 1). In general, we would favor a principles-based approach (1a), BUT we are very supportive of the idea of harmonizing IPSAS with GFS as in Option 1b. As a practical matter, we would prefer Option 1b since it could provide (optionally) a classification scheme (budgetary entities, extra-budgetary entities, and public corporations) that would meet the segment requirements in the IPSAS as explained in paragraph 4 below. The IMF classifications are well laid out in their publications and do not need further clarification. They are consistent with the United Nation's System of National Accounts and its sectoral classification. In addition, they are being applied by countries throughout the world. If clarification is needed, IMF advisers are readily available in most countries to explain the classification. Acceptance of these guidelines would be another step forward in our efforts to harmonize the IPSAS with those used by the IMF statistical reporting system.</p> <p>4. Other observations are as follows:</p> <p>a. To assist in making fiscal policy decisions, we prefer to use the following IMF breakout: budgetary entities, extra-budgetary entities, and public corporations. As a good intermediate step, we would prefer the following presentation since it would eliminate the current difficulties in trying to prepare a whole-of-government statement from those prepared on a cash or accrual IPSAS basis with those from IFRS:</p> <table><tr><td></td><td>Budgetary Entities*</td><td>Extra-Budgetary*</td><td>Public Corporation**</td></tr><tr><td>Income</td><td>1000</td><td>100</td><td>1000</td></tr><tr><td>Expenses</td><td><u>950</u></td><td><u>150</u></td><td><u>750</u></td></tr><tr><td>Subtotal</td><td>50</td><td>(50)</td><td>250</td></tr><tr><td>Transfers to/(from)</td><td>(100)</td><td>100</td><td></td></tr><tr><td>Transfers to/(from)</td><td><u>200</u></td><td><u> </u></td><td><u>(200)</u></td></tr><tr><td>Surplus/(Deficit)</td><td><u>150</u></td><td><u>50</u></td><td><u>50</u></td></tr></table> <p>*follows cash or accrual IPSAS **follows IFRS</p>		Budgetary Entities*	Extra-Budgetary*	Public Corporation**	Income	1000	100	1000	Expenses	<u>950</u>	<u>150</u>	<u>750</u>	Subtotal	50	(50)	250	Transfers to/(from)	(100)	100		Transfers to/(from)	<u>200</u>	<u> </u>	<u>(200)</u>	Surplus/(Deficit)	<u>150</u>	<u>50</u>	<u>50</u>	Support GFS harmonization related to classification of public sector entities
	Budgetary Entities*	Extra-Budgetary*	Public Corporation**																													
Income	1000	100	1000																													
Expenses	<u>950</u>	<u>150</u>	<u>750</u>																													
Subtotal	50	(50)	250																													
Transfers to/(from)	(100)	100																														
Transfers to/(from)	<u>200</u>	<u> </u>	<u>(200)</u>																													
Surplus/(Deficit)	<u>150</u>	<u>50</u>	<u>50</u>																													

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			b. To assist in making monetary policy decisions, we prefer that the Central Bank be shown as a separate stand-alone financial statement in line with the IFRS.	
02	Yes	A	<p>In France, the law, or other legislative text (decrees, etc.), requires the use of public sector accounting principles for general government entities. Very few entities that would meet the characteristics of public sector entities may be required, in some specific instances, to use the private sector set of standards in application of the law. This is often a heritage from ancient times and historic rules that may take some time to overcome. While those borderline cases do not represent the majority of cases within the public sector, we are of the opinion that some flexibility is still needed to allow regulators and relevant authorities to make decisions with respect to the accounting standards that are required to be applied. This leads us to favour option 1a.</p> <p>Another reason for our preference for option 1a over option 1b is that, while we believe that the scope of public sector accounting standard-setting should mirror that of the general government sector in GFS, we would be concerned in choosing option 1b that accounting standards would introduce terms that specifically serve the purpose of statistical reporting rather than that of financial reporting. Unless those terms are to be further used to depict operations that fall under the scope of other accounting standards, we would be reluctant to introduce them in a description of characteristics of entities that may apply IPSASs. In our opinion, introducing those terms does not help classifying entities as public sector, even more so that regulators and relevant authorities may decide for a different classification. For those reasons, we would still favour option 1a in that it would remain principles-based and still converge with GFS.</p> <p>Also, given that what will become of the current definition of GBEs in IPSAS 1 Presentation of Financial Statements is not addressed in the Consultation Paper, we wonder whether that definition will be merely removed and replaced with the proposed characteristics should option 1 be retained. Because we think that the previous attempt at defining GBEs is nonetheless useful guidance, though not self-sufficient, we would be grateful if the IPSAS Board could provide clarification as to what it is intended to become of that definition. We would encourage the Board to maintain a reference to that definition in the Basis for Conclusions.</p>	<p>Favors flexibility at national standard-setting level.</p> <p>Believes that the scope of public sector accounting standard-setting should mirror that of the general government sector in GFS, but has concerns about introduction of terms.</p> <p><i>Staff:</i> Paragraphs 60-63 and 78-90 of the Issues Paper</p>

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			<p>In addition, from the viewpoint of consistency with IFRSs, we are of the view that option 1 would be better articulated with the Preface to IFRSs where the focus is on profit-oriented entities that are described rather than defined.</p> <p>Lastly, we would like to remind the IPSAS Board that, to us, it is critical at some point in the near future that it should address the issue of the difference between the scope of consolidation and that of the general government sector. In our opinion, IPSAS 22 Disclosure of Financial information about the General Government Sector does not fully deal with the issue. We think that mere reconciliations between consolidated accounts and information from the General Government Sector fail to provide useful financial information to users on the public sector as a whole, even more so since applying IPSAS 22 is not mandatory. Therefore, we would encourage the IPSAS Board to engage in a comprehensive research on the issue of financial information for users drawn from aggregating public sector entities versus consolidating controlled entities.</p>	<p>addresses the respondent's concern about the future of the GBE definition.</p> <p>Staff notes the suggestion on IPSAS 22.</p>
03	Yes	A	<p>We agree with the IPSASB's preliminary view and we support option 1a. This is because option 1a:</p> <ul style="list-style-type: none"> • is principle based rather than rules oriented; • is drawn from the Conceptual Framework; • is relatively easy to understand and apply; • is more closely aligned with GFS reporting guidelines than the current approach or option 2; • does not create issues with further defining additional terms (as is the case with option 1b, 2a and 2b); • allows exercise of judgment and acknowledges the role of regulators; and • addresses the interpretation and lack of flexibility issues that lead to the start of this project. 	Staff notes that most of the reasons for supporting Option 1a are coincident with the reasons stated in the CP.
04	Yes	A	HoTARAC agrees with IPSASB's PV and prefers Approach 1 over Approach 2 as it focuses on describing the characteristics of public sector entities for which IPSASs are intended and that will be useful in guiding standard setting.	

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>With an attempt to define what is a GBE or is not a GBE (i.e. Approach 2), there is a risk an entity may fall outside of the scope of both definitions, or the entity could be captured by the definition in a way the IPSASB did not intend. For example, currently IPSAS 1 defines a GBE as an entity that has all of a number of characteristics, including 'is controlled by a public sector entity'. In Australia, some State Owned Corporations we believe should be considered GBEs fall outside of IPSASB's definition because they are owned by the Ministers on behalf of the State, and not by a public sector entity.</p> <p>HoTARAC supports Option 1a as it uses principles that focus on the fundamental characteristics of public sector entities which in turn determine which set of accounting standards should be applied. Option 1a also provides flexibility for relevant regulators and authorities to determine the applicability of IPSASs to certain public sector entities. In Australia we adopt a transaction neutral framework which requires like transactions and events to be accounted for in a like manner for all types of entities. Australian accounting standards recognise that not-for-profit entities are unique and may have different types of transactions as compared to for-profit entities. As such, our standards include additional guidance for not-for-profit entities in the private and public sectors where appropriate. This approach is consistent with the intention to apply IPSASs to entities that are not profit-oriented.</p> <p>Option 1b proposes using GFS entity classification guidelines for determining which entities should apply IPSASs. We do not support this approach because the proposed criteria under Option 1b are based on principles that are not specifically derived for financial reporting purposes. Instead, it is based on statistical reporting requirements/concepts. Another reason for not supporting Option 1b is that it will be difficult for IPSASB to control or predict future changes of GFS entity classification guidelines and the impact it may have on IPSASs.</p> <p>In Australia we use GFS guidelines to distinguish between "General Government Sector" and "Public Trading Enterprises". This is for determining which sector the entities are reported in, but not for the purposes of determining which set of accounting standards should be applied. We believe that for the purposes of financial reporting Option 1a is more relevant and we would expect that well developed principles under Option 1a would be consistent with GFS.</p>	<p>Staff notes that most of the reasons for supporting Option 1a are coincident with the reasons stated in the CP.</p> <p>Staff acknowledges view that Option 1b is based on principles that are not specifically derived for financial reporting purposes and it is difficult to</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
				control future changes and its impact on IPSAS. This is a powerful reason against adopting Option 1b.
05	No clear view	D	Sasria SOC Ltd is profitable and does not require monies from the government or other levels of government to function, therefore Sasria SOC Ltd should be able to apply IFRS and other standards as commercially oriented entities do.	Staff notes that this respondent's comments reflect jurisdictional factors.
06	Yes	A	<p>The XRB supports the IPSASB's preferred approach (Option 1a within Approach 1) which proposes to describe the characteristics of public sector entities for which IPSASs are intended without formally defining the term GBE.</p> <p>We also agree with IPSASB's proposed description of the characteristics of public sector entities and that IPSASs are designed to apply to entities that:</p> <ul style="list-style-type: none"> a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth; and b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment. <p>We support this option on the basis that it rightly focuses on describing the characteristics of entities for which IPSASs are intended to apply and reflecting the concepts and descriptions in the Conceptual Framework. We</p>	<p>Agrees with the CP description of public sector entities.</p> <p>Staff notes that most of the reasons for</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>support its principle-based approach and the acknowledgement of the role of regulators and other relevant authorities in determining which entities should apply IPSASs within individual jurisdictions.</p> <p>From New Zealand's perspective, this is consistent with the manner in which we have adopted and applied IPSASs for our PBEs. The option is also consistent with our guidance on how an entity determines if it is a PBE. Option 1a is also consistent with the approach adopted by the IASB and, in this respect, the XRB supports having a consistent and coherent approach across both the for-profit and PBE sectors.</p> <p>We do not support Option 1b as GFS concepts are not concepts that are commonly used for financial reporting purposes in New Zealand. Moreover, it is our view that the GFS concepts are not sufficiently clear-cut and are too rules-based. We are not in favour of the possibility that the approach may require the introduction of terms and explanations from the GFS literature into the IPSASB literature. We think this may be confusing, especially if the terms are inconsistent with concepts used for financial reporting purposes, for example, the concepts of control and consolidation.</p>	<p>supporting Option 1a are coincident with the reasons stated in the CP.</p> <p>Do not support option 1b because GFS concepts are not sufficiently clear-cut and are too rules-based</p>
07	Yes	A	<p>We do agree with the IPSASB's preliminary view that approach 1, and more specifically sub-option 1a, is most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended. The recommended approach is consistent with the approach taken by the IASB for profit-oriented entities.</p> <p>The Institute believes that the best approach is for the IPSASs to not define a GBE but to instead describe the characteristics of public sector entities for which IPSASs are intended, using the IPSASB's current and developing terminology.</p> <p>We further support Option 1a because it is a high level, principles-based approach that draws on the Conceptual Framework. In addition it acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSASs.</p> <p>Therefore, the proposed approach is the way to go.</p>	Support for Option 1a for reasons stated in CP.
08	Yes	B	<u>Option 1a: using IPSASB's current and developing terminology</u>	

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>We support the IPSASB's preliminary view, with clear support for Option 1a, as it reflects the concepts and descriptions developed in the <i>Conceptual Framework</i>. We believe that it is important for the IPSASB to draw on these concepts as it confirms the fundamental importance of the <i>Conceptual Framework</i>'s role in the future of global public sector standard setting and the IPSASB's standard setting activities.</p> <p>We believe that when the regulators and other relevant authorities in each jurisdiction understand the foundational concepts in the <i>Conceptual Framework</i> they will be able to apply better judgement in determining which entities should be required to prepare general purpose financial statements and the appropriate reporting framework for those entities.</p> <p>Option 1a outlines the high level characteristics of public sector entities for which the IPSASB develops IPSASs. We are concerned that these high-level characteristics will be difficult to interpret and apply in different jurisdictions. To avoid these application and interpretation issues, we believe that clear supporting guidance should be provided for certain aspects of these characteristics. Clear guidance would also assist in establishing a clear boundary between public sector entities that should apply IPSASs, and other entities such as GBEs which should apply IFRSs (or a national equivalent).</p> <p>The discussion that follows outlines those areas where we believe additional guidance or commentary would be useful to ensure consistent interpretation and application of the characteristics.</p> <p><i>(a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth.</i></p> <p>This characteristic suggests that a public sector entity will use its assets, which are non-cash-generating in nature, to provide goods and services to the public. We are concerned that the characteristic may be open to different interpretations, especially where an entity's objective is to use the assets to make a profit and to fulfil its community service obligations.</p> <p>We propose that supporting guidance is included to assist jurisdictions with addressing these instances, particularly when it is not immediately clear whether the assets held are non-cash-generating or cash-generating. We believe that the supporting guidance could be based on paragraph 6.23(b) of the revised definition in option 2b in the Consultation Paper. We believe it would be useful to clarify that a public sector entity is not an entity</p>	<p>The high-level characteristics of public sector entities will be difficult to interpret and apply in different jurisdictions.</p> <p>Staff is of the view that such detailed guidance is not really consistent with the ethos of a high-level approach that leaves detailed decision-making to regulators (and other relevant authorities) which is the main feature of Option 1a.</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>which delivers services in the normal course of its business, to other entities (i.e. individuals and non-government organisations as well as other public sector entities outside the reporting entity) with a profit-oriented objective.</p> <p><i>(b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees.</i></p> <p>This characteristic indicates that the activities undertaken by public sector entities may be financed from various sources, including charging of fees. In our view, this characteristic is also open to different interpretation, as it does not clearly state the nature of the fees that can be charged and/or the basis on which these fees can be charged by public sector entities.</p> <p>Similar to the shortcomings identified in (a) above, we believe that there is a need for explanatory guidance to be provided to clarify the nature and basis of the fees that can be charged by public sector entities. We propose that the guidance should reflect the notion that a public sector entity may charge a fee to recipients of services to recover some or all of the costs of providing the services without the aim of making a profit.</p> <p>At present, this characteristic merely indicates that a public sector entity is one which is financed directly or indirectly through taxes and transfers from other levels of government. There are many entities that receive funding from government in these forms. For example some GBEs might receive transfers from government for undertaking certain activities, to undertake capital projects etc. What is important is the extent to which an entity is funded by such transfers, as well as the nature of the funding received.</p> <p>The guidance in paragraph 6.18(d) of the Consultation Paper, which clarifies the terms "not reliant" and "continuing government funding" in relation to the paragraph 6.19(c) of the revised definition under option 2a, could be useful in describing the nature of the funding received. As such, the guidance should explain that a public sector entity will be substantially dependent on continuing government funding to fund its ongoing operations.</p> <p><i>(c) Do not have capital providers that are seeking a return on their investments or a return of the investment.</i></p> <p>We question whether this requirement provides a solid boundary between a public sector entity and other types of entities. Our stakeholders noted that it is unclear what is meant by "do not have capital providers that are</p>	<p><i>Staff:</i> This description will need to be read and interpreted with paragraph 2 of the Conceptual Framework which states: "The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors."</p> <p>Suggests clarification and guidance on the nature of fees charged and the funding from government.</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>seeking a return on their investments". In particular, whether it is the existence of the capital providers that distinguishes public sector entities from other entities, or that they are not seeking a return.</p> <p>We noted that the notion of "not seeking a return on their investment" can be difficult to apply because the capital provider can hold the investment for purposes other than to receive a return on its investment. This in itself would not mean that the entity is a public sector entity. The following illustrates this point:</p> <ul style="list-style-type: none"> In some jurisdictions, there may be entities with capital providers which have surrendered a return on their investments for strategic purposes. For example, a government may invest in an entity that controls ports, railways and other strategic assets/operations, and foregoes returns on its investment on the premise that it is given preferential access to those assets/operations in specific circumstances. The fact that government is clearly not seeking a return does not mean that the other organisation is a public sector entity. In other instances, there may be capital providers that exist and are theoretically making a return but have elected not to seek that return for policy decisions, for example, to ensure that any returns are used to grow the operations or make the entity more sustainable. <p>Our stakeholders also noted that clarity is required about whether "capital providers" refers to providers of debt capital or equity capital.</p> <p>While we accept that the entity would need to demonstrate the other characteristics to conclude that it is a public sector entity, we were not persuaded that the mention of capital providers and their not seeking a return as outlined in the Consultation Paper is useful in distinguishing public sector entities from other entities.</p> <p><u>Option 1b: using Government Finance Statistics reporting guidelines and explanatory guidance</u></p> <p>We do not support the IPSASB's proposal to use Government Finance Statistics (GFS) reporting guidelines in option 1b. We believe that the use of GFS reporting guidelines would only be useful and well understood in those jurisdictions that are familiar with the GFS reporting guidelines. The relative importance of the GFS reporting guidelines in the context of the preparation of financial statements may differ from jurisdiction to jurisdiction. For example, from a South African perspective, the GFS reporting guidelines are only understood, considered and applied by statisticians, and economists and other professionals from the National Treasury and the central bank.</p>	<p>Suggests clarification and guidance on the meaning of "capital providers" and "not seeking a return on their investment".</p> <p>Staff is persuaded by this concern and proposes IPSASB a redrafting of this characteristic (see paragraphs 53-55 of the Issues Paper).</p> <p>GFS reporting guidelines are not considered by accounting professionals.</p>

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			<p>Accounting professionals working in other government organisations preparing financial statements do not consider or apply GFS reporting guidelines at all.</p> <p>Apart from the fact that only a limited number of individuals within a jurisdiction may consider, apply and understand the GFS reporting guidelines, we believe that the objectives of the GFS reporting and the IPSASs differ fundamentally. The objective of the GFS reporting guidelines is to evaluate the impact of the general government and public sector on the economy while IPSAS-based financial statements are used to evaluate financial performance and position, hold management accountable, and inform decision making. Because the objectives of the two reporting frameworks are different, their users are also different, and will result in fundamental differences on how and what information is reported.</p> <p>During our consultation process, our stakeholders made the observation that the application of the proposed characteristics under this option could result in those GBEs that operate in monopolistic environments no longer being classified as GBEs. They noted that such entities may not be able to demonstrate that they sell goods and services at economically significant prices because they are usually the sole supplier of the goods and services and may not have discretion about adjusting supply based on price. As a result these entities are likely to be public sector entities under Option 1b, even though they have a profit-making objective.</p> <p>Stakeholders indicated that they found the concept of "economically significant prices", and how this could be assessed, useful. In particular, they noted that the idea of what is considered an economically significant price (as outlined in paragraph 6.14 of the Consultation Paper), together with the assessment of 50% sales to cost ratio over several years, is a useful boundary for classifying entities.</p> <p>Although we do not support Option 1b, certain aspects may be useful in clarifying certain characteristics of option 2, should this option be supported by respondents. This is discussed under our response to specific matter for comment 2.</p>	<p>Objectives of IPSASs and GFS reporting guidelines are different.</p> <p>GBEs with monopolies can be considered public sector entities.</p>
09	Yes	A	<p>The Swedish NAO prefer option 1a. The rationale for our preference is that:</p> <ul style="list-style-type: none"> International accounting standard should be principle based allowing national regulators to set national requirements. 	

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			<ul style="list-style-type: none"> This option is aligned with the Conceptual Framework and we should minimize any deviations from the framework. <p>In our opinion alignment with the GFS terminology is doubtful on this stage. There are more and more voices raised requiring alignment between accounting standards and principles for statistical reporting and we are aware of the ongoing IPSASB project on this theme. Though it might be too early to start using GFS definitions, before there is a proper analysis done. Besides, we have to bear in mind that the information from the statistical reporting and the financial reporting are two different sources of information used for different purposes. Another issue is that there are different statistics reporting frameworks and if IPSAS is aligned with one then the other falls out of scope, which might lead to confusion.</p>	Objectives of IPSASs and GFS reporting guidelines are different.
10	Yes	A	<p>The IDW supports the Board's preliminary view and agrees that approach 1, and specifically approach 1a is the most appropriate of the four approaches identified in the Consultation.</p> <p>Financial reporting standards and financial reporting frameworks can generally only be deemed acceptable when they are applied to circumstances that correspond to the purpose for which they were conceived.</p> <p>The responsibility for determining which jurisdictions and within a jurisdiction which public sector entities shall apply IPSASs generally lies with relevant national, regional or other authorities. This responsibility does not lie with the IPSASB. We would also like to point out that auditors also generally have a responsibility in this regard. For example, in establishing whether the preconditions for an audit pursuant to the international standards on auditing (ISAs) are present, the auditor is required – among other things – to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable (see ISA 210.06a and A2-A10).</p> <p>In this context, we also note that national legislation may, for particular reasons, stipulate that certain public sector entities, such as profit-generating entities, are required to comply with financial reporting frameworks such as IFRS or national GAAP in preparing their financial statements. Creditor protection legislation may be one such reason in many jurisdictions. A variety of further factors, including the information requirements of government statistical agencies may also influence the decision as to the applicability of IPSASs in particular jurisdictions or particular environments.</p>	<p>The relevant national, regional or other authorities determines which public sector entities shall apply IPSAS.</p> <p>The auditor is required to determine whether the financial</p>

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			<p>The IDW agrees with the Board that approach 1a is the most appropriate approach, since it informs such parties as to the IPSASB's intent in drafting the suite of IPSASs, thus assisting those responsible for determining the applicability or acceptability of IPSASs as the applicable financial reporting framework to make informed decisions that take due account of the individual circumstances prevailing.</p> <p>According to the IPSASB's recently released Conceptual Framework (CF), IPSASs are designed to impart information that is useful for accountability and decision making purposes (Para 2.1 of the CF). Therefore, it would generally be appropriate for IPSASs to deal with the activities of the public sector in as comprehensive a manner as possible.</p>	reporting framework to be applied in the preparation of the financial statements is acceptable.
11	Yes	A	<p>It is difficult to define GBEs exactly, as Option 2 proposes. It is more logical to define which entities must use IPSASs than to define which entities do not have to use IPSASs. Further Option 1 is in practice easier to realise, because it represents a principle-based approach. The SRS-CSPCP therefore in principle supports the principle-based Option 1.</p> <p>Furthermore Option 1a is preferred to Option 1b. The Government Finance Statistics (GFS) Reporting Guidelines have proved to be very useful for the classification of public sector entities and their distinction from private sector entities, but financial statistics make no statements about the accounting principles to be applied. Public sector entities, which are a part of the General Government Sector (GGs per IPSAS 22) and are termed General Government Units, should of course apply IPSASs. On the other hand the units termed public corporations under GFS account either under IPSAS or IFRS. The 50% rule applies: where its market sales are consistently below 50% of its production costs, the unit is classified to the GGS. In such a case the entity applies IPSAS.</p> <p>The SRS-CSPCP therefore supports Option 1a. However, the characteristics for public sector entities that are not part of the General Government Sector (GGs) and are not GBEs should be supplemented as follows:</p> <ul style="list-style-type: none"> ➤ The entity's objective is not profit earning (not profit oriented). Certain entities may be financed out of taxes, others not. The method of financing is therefore not a consistent criterion in order to know whether an entity must apply IPSAS. ➤ It is possible that in certain cases the entities that apply IPSAS may earn a profit without this being for them a genuine objective. The reason why these entities must draw up their annual accounts in accordance with 	<p>Staff notes that the reasons for supporting Option 1a are coincident with the reasons stated in the CP.</p> <p>Reference to IPSAS 22 boundary of GGS.</p> <p>Public sector entities inside of GGS should apply IPSASs.</p> <p>More guidance on public sector</p>

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			<p>IPSAS is that, if the entity were repeatedly to suffer losses, the losses would be financed by another public sector entity via a transfer.</p> <p>Further, the SRS-CSPCP would like a more detailed explanation of what is meant by the direct or indirect financing of activities of public sector entities as mentioned in Section 6.8 (b).</p>	entities that are not part of the GGS and are not GBES.
12	Yes	A	<p>In response to Specific Matter for Comment 1, the AASB agrees with the IPSASBs preliminary view that Approach 1 is the most appropriate and supports option (a).</p> <p>The AASB agrees that it is not within the IPSASB's mandate to state that Government Business Enterprises apply IFRSs as this is a role for the relevant jurisdictional regulator. Further, the AASB supports option (a) because:</p> <ul style="list-style-type: none"> GFS terminology is generally not well understood by constituents, unlike the IPSASB terminology that is proposed to be used in option (a); and If GFS terminology were to be used, the IPSASB would be reliant on third party literature. Any change to GFS reporting guidelines would be outside the IPSASB's control. Therefore, if these guidelines changed then the wording in the IPSAS <i>Preface</i> would also have to be changed. 	GFS not well understood by constituents. Notes that reliance on third party literature outside of IPSASB's control.
13	Yes	B	ACAG agrees with the IPSASB's preliminary view that Approach 1, and more specifically Option 1a, is the most appropriate way forward.	

		<p><u>Option 1</u></p> <p><i>Describing the characteristics of public sector entities for which IPSASs are intended. Under this approach, GBEs would not be defined.</i></p> <p><i>There are two options within this approach:</i></p> <p><i>(a) Using IPSASB's current and developing terminology; or</i></p> <p>ACAG agrees with the IPSASB's majority view that the most appropriate option is to use IPSASB's current and developing terminology to better describe the characteristics of public sector entities for which IPSASs are intended.</p> <p>Describing the characteristics of public sector entities for which IPSASs are intended</p> <p>Firstly, Option 1(a) would clarify the characteristics of public sector entities to which IPSASs are intended to apply. This option is particularly relevant given that the term "public sector entities" is currently not described in the Handbook of International Public Sector Accounting Pronouncements, 2014 Edition (the Handbook).</p> <p>Having said that, it is noted that paragraph 4.1 of Chapter 4 Reporting Entity of the Handbook provides that:</p> <p><i>"A public sector reporting entity is a government or other public sector organisation, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs."</i></p> <p>Chapter 4 further explains the key characteristics of public sector reporting entities that should prepare GPFRs given the reliance and expectation of relevant constituents/service recipients/resource providers on such financial information for accountability and decision making purposes.</p> <p>While Chapter 4 of the Handbook is useful in providing guidance on the purpose of GPFRs in the context of public sector reporting entities, Chapter 4 (or any other section of the Handbook) does not describe the characteristics of a public sector entity. The concept of a public sector entity is therefore left open for interpretation based on a common understanding of the nature of a public sector entity.</p> <p>Secondly, Option 1(a) is in keeping with the approach of the International Accounting Standards Board (IASB) of describing the characteristics of, but not defining, "profit-oriented entities" in International Financial Reporting Standards (IFRSs), in the <i>Preface to International Financial Reporting Standards</i> or in other supporting documents. Aligning the approaches used by the IPSASB and IASB could potentially benefit regulators and other relevant authorities in determining which reporting framework should be applied for borderline cases.</p>	
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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>Finally, ACAG agrees with the IPSASB's comments in paragraphs 6.5-6.7 of the Consultation Paper in that using Option 1(a) will reflect the concepts and descriptions in the <i>Conceptual Framework</i>. It makes sense for the IPSASB to be consistent in its approach in all its publications, including the <i>Conceptual Framework</i>, the IPSASs and the Recommended Practice Guidelines.</p> <p>However, ACAG proposes that paragraph 6.8 is modified - with the view of not overly restricting the scope of public sector entities that can apply IPSASs.</p> <p>Modification to Paragraph 6.8(a)</p> <p>To reiterate, the characteristics of public sector entities are outlined in Paragraph 6.8 of the Consultation Paper as:</p> <p>“IPSASs are designed to apply to entities that:</p> <ul style="list-style-type: none"> (a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth; (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.” <p>ACAG proposes that paragraph (b) is removed from the definition, with paragraph (a) amended as follows:</p> <p>“IPSASs are designed to apply to entities <u>whose principal objective is not the generation of profit</u> and that are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth.”</p> <p>The current wording in paragraph 6.8, by including part (b), appears to exclude self-financing entities and to be designed to capture only entities within the GGS (as stated to be the IPSASB's intention in paragraph 6.15) in the scope of IPSASs. ACAG does not support this view, but believes that the scope of IPSASs should not only capture entities that are within the GGS but also potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation.</p>	<p>Amend the description of entities to include other entities outside the GGS that have a primary objective of service delivery rather than profit generation and exclude the sources of funding.</p> <p>Staff is persuaded by this concern and proposes IPSASB a</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>ACAG believes that the principles for applying IPSASs should focus on the nature of the entity's activities, rather than its sources of funding which the IPSASB has acknowledged has caused issues with interpretation. Therefore, ACAG believes that only part (a) of paragraph 6.8 is necessary. This is supported by paragraph 6.7 that acknowledges that the draft Preface to the IPSASB Conceptual Framework indicates that "the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a rate of return to investors" (i.e. no reference is made to sources of funding).</p> <p>In addition, ACAG proposes the inclusion of the characteristic that the entity's principal objective is not the generation of profit. This addition has the benefits of:</p> <ul style="list-style-type: none"> • incorporating the main clarification from Approach 2; and • establishing a direct point of comparison with the scope of IFRSs. <p>(b) Using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance</p> <p>ACAG does not support Approach 1(b).</p> <p>ACAG understands that it is the IPSASB's policy to reduce unnecessary differences between IPSASs and GFS reporting guidelines. Overall, ACAG agrees that the IPSAS's framework should be consistent with GFS reporting principles on a holistic basis. However, ACAG does not agree that GFS reporting guidelines and explanatory guidance should be adopted to form part of the IPSASB literature.</p> <p>ACAG is of the view that GFS reporting is in substance more economics than accounting principles based. This is reflected in the phrases used in the GFS reporting guidelines such as "economically significant prices", "market producers", "non-market producers", etc.</p> <p>While it is the IPSASB's intention to clarify the meaning and use of these phrases as part of this consultation process, ACAG is of the view that doing so is introducing non-accounting terms into accounting literature which may not necessarily provide clarification but potentially add another layer of complication in interpretation.</p> <p>Public sector entities and Public Sector – definitions and scope</p>	<p>redrafting of this characteristic (see paragraphs 53-55 of the Issues Paper).</p> <p>Use of GFS terminology in IPSASs literature does not provide clarification and adds complication in interpretation.</p>

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			<p>Further, in accordance to GFS reporting guidelines, the Public Sector consists of the General Government Sector (GGS) and the government-controlled entities, known as public corporations. The latter are comprised of Financial Public Corporations and Non-financial Public Corporations whose primary activity is to engage in commercial activities (refer to extract "Figure 2.2: The Public Sector" flow chart below).</p> <div data-bbox="907 500 1272 941" data-label="Diagram"> <p style="text-align: center;">Coverage of the GFS System</p> <pre> graph TD PS[Public Sector] --> GG[General Government] PS --> PC[Public Corporations] GG --> CG[Central Government] GG --> SG[State Government] GG --> LG[Local Government] PC --> FPC[Financial Public Corporations] PC --> NPC[Nonfinancial Public Corporations] FPC --> MPC["Monetary Public Corporations, including the central bank"] FPC --> NFPC["Nonmonetary Financial Public Corporations"] </pre> </div> <p style="text-align: center;"><i>Source: Para 2.62 Government Finance Statistics Manual 2001</i></p> <p>The Public Sector concept under GFS reporting contrasts with the concept of public sector entities as envisaged by the IPSASB, even though it is the IPSASB's intention that only the description of GGS be adopted (Note that ACAG does not support this overly restrictive scope of IPSASs as explained above).</p> <p>The meaning of public sector entities is outlined in paragraph 6.13 of the Consultation Paper as:</p> <p><i>"IPSASs are designed to apply to entities that:</i></p> <p><i>(a) Are responsible for the delivery of goods services to the community or to individual households on a non-market basis and make transfer payments to redistribute income and wealth;</i></p>	<p>The scope of public sector in GFS reporting guidelines is different from the description of public sector entities that should apply IPSASs.</p>

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			<p><i>(b) Finance their activities, directly or indirectly, mainly by means of taxes, contributions and/or transfer from other levels of government."</i></p> <p>The definition above is more in line with the meaning of GGS rather than of a public sector entity under GFS reporting guidelines. In fact, the characteristics of a government are closely aligned with the definition above as stated in Paragraph 2.1 of the GFS Manual 2001:</p> <p><i>"...The principal economic functions of a government are (1) to assume responsibility for the provision of goods and services to the community on a nonmarket basis, either for collective or individual consumption, and (2) to redistribute income and wealth by means of transfer payments. An additional characteristic of government is that these activities must be financed primarily by taxation or other compulsory transfers...."</i></p> <p>Therefore, the public sector entities definition as proposed by the IPSASB is at odds with the composition of the Public Sector under the GFS System. It could be argued that this may create confusion on the concept of public sector entities and public sector between the two different reporting frameworks.</p> <p>Borderline cases</p> <p>Specific guidance for borderline cases such as quasi-corporations, restructuring agencies, special purpose entities and joint ventures are explained in the System of National Accounts 2008 instead of in the GFS Manual 2001. While arguably the guidance can be helpful to differentiate a GBE from a public sector entity, the extended guidance is prescriptive and therefore not in line with the IPSASB's principles- based philosophy. Further, such a prescriptive approach tends to provide 'bright lines' on structuring opportunities for entities to tailor to their reporting environment.</p> <p>It is therefore difficult to see the benefits of adopting the GFS reporting guidelines to further enhance and clarify the IPSASB's reporting framework.</p>	GFS guidance on borderline cases is prescriptive and not principles-based.
14	No		Do you agree with the IPSASB's PV? – No, we have a different view with the IPSASB's preliminary view.	

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>Rationale for not supporting option 1(a) and (b)</p> <p>Option 1(a) is a principles based approach utilizing IPSAS terminology (makes it easier for those versed in IPSAS to apply) to define the characteristics of public sector entities, but it does not provide much by way of guidance on borderline cases. Option 1(b) defines the characteristics of public sector entities that are developed using the "GFS reporting guidelines description of the GGS". With option 1(a) and 1(b), the term GBE will be excluded from IPSAS terminologies. The rationale is that regulators should be able to assist with the determination of which entities within the Public Sector that should apply IFRS.</p> <p>The questions to ask are as follows:</p> <ul style="list-style-type: none"> a) Are there clearly established bodies in all jurisdictions designated as regulators in the accounting profession? b) Are all regulatory bodies appropriately staffed with qualified personnel to be able to deal with the complex issues of which entity within the public sector falls outside the scope of GGS and therefore should apply IFRS? c) Where each individual regulator in different jurisdictions determine (by their own developed criteria) the entities falling outside the scope of the GGS, would we still have an international standard that is comparable across jurisdictions and also achieve international harmonisation/convergence? d) Would the introduction of new literature on GFS need to replace the definition of GBE? <p>We provide below detailed comments on the questions raised:</p> <p>a) Comparability</p> <p>We believe that IPSASs are to be international in nature. It should therefore be able to provide clarity on every aspect it deals with and not leave any grey area to be determined by regulators in different jurisdictions. Where this is done, it may be difficult to achieve one of the qualitative characteristics of financial statements (comparability).</p>	<p>Option 1a has no guidance on borderline cases. Staff notes that this was intentional and in accordance with the high-level, non-prescriptive nature of the option.</p> <p>Staff is of the view that the answer to questions a) and b) will vary according to jurisdictions.</p> <p>Staff is of the view that having the GFS literature into IPSAS while retaining the GBE definition will create an additional layer of complexity in dealing with distinct terms.</p>

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>b) Convergence and international harmonisation</p> <p>For instance, in jurisdiction (A), a regulator may come up with criteria to determine which entities fall outside a GGS. Those criteria may not be the same as those that may be applicable for jurisdiction (B). Hence, comparing financial information prepared in accordance with IPSAS from those two jurisdictions may be like comparing apples to oranges.</p> <p>The above example will defeat efforts aimed at achieving convergence and international harmonisation. Should option 1 be supported, we may in the not distant future be dealing with the need to harmonise and converge, which is difficult to achieve.</p> <p>c) Capacity of regulators</p> <p>In some jurisdictions (Sub-Saharan Africa), the regulator, usually, the Institute of Chartered Accountants in that country is not yet codified in Law as the regulator. Hence, in terms of mandate to determine which entities apply IPSAS or IFRS, they may not have the mandate. There is therefore the need for clear guidance within the IPSAS standard for a preparer of financial statements to be able to make the judgement call rather than depend on the judgement of the regulator who may not have all the legal backing to play that role.</p> <p>Additionally, most regulatory entities in Sub-Saharan Africa are in the process of recruiting qualified personnel to assist them to discharge their regulatory role. In some areas, there are capacity gaps that would not allow for discretion and judgement in terms of the correct financial reporting framework to be used by public sector entities</p> <p>d) Reduction in unnecessary differences between IPSAS and GFS</p> <p>GFS reporting guidelines are related to the presentation of statistics about the GGS. We believe that IPSAS 22 can be amended to accommodate the write-up on GFS. Hence, instead of taking out the criteria for determining GBE, we can review IPSAS 22 to address any gaps within the existing standard (IPSAS 22) and GFS guidelines.</p>	<p>IPSASs should provide clarity in order to achieve international comparability.</p> <p>National regulators may have different criteria to classify public sector entities. Clear guidance within IPSASs to help prepares.</p> <p>Amend IPSAS 22 instead of replacing the GBE definition.</p>
15	Yes	A	We support and agree with the Board's preliminary view of approach 1a – not defining GBEs, but relying on the current and developing IPSASB literature, including the Conceptual Framework, to provide high-level characteristics of public sector entities.	

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			We agree with the majority of the IPSASB members (as noted in paragraph 7.7 of the consultation paper) because we support a high level, principles-based approach that draws on the <i>Conceptual Framework</i> . In addition such an approach acknowledges the role of regulators and other relevant authorities (national and/or regional) in determining which entities should apply IPSASs.	
16	Yes	B	<p>We agree with the overall discussion set out in the Consultation Paper.</p> <p>We acknowledge the role of regulators and other relevant authorities in each jurisdiction in determining which entities should be required to prepare general purpose financial statements and the suite of accounting standards to be applied.</p> <p>Requirements for the application of accounting standards in the public sector vary from country to country. Some regulators and other relevant authorities prefer to specifically define which organisations should prepare general purpose financial statements. Others prefer to leave space for judgement on the classification of entities and the applicability of rules for preparing general purpose financial statements.</p> <p>We believe, however, that regulators and other relevant authorities should - in making their determination - follow a unique framework which clarifies the scope of IPSAS. We therefore consider that the high-level description of organisations to which IPSASs are applicable would better fit this objective and therefore agree that Approach (1) is the best way forward. This option suggests describing the characteristics of public sector entities for which IPSASs are intended. Under this approach GBEs would not be defined.</p> <p>Within Approach 1, we agree with the IPSASB's view and support Option (1a), which relies on the current and developing IPSASB literature, including the Conceptual Framework, to provide high-level characteristics of public sector entities.</p> <p>We generally support aligning accounting standards with GFS where relevant and to the extent the overarching objective of developing high-quality accounting standards is still met. Notwithstanding this general support, in order to reduce unnecessary inconsistencies and avoid the burden of dual reporting by governments, we do not believe that importing GFS reporting guidelines and explanatory guidance in the IPSAS literature for this specific purpose is desirable.</p>	Acknowledges the role of regulators and other relevant authorities in determining accounting standards to be applied.

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			<p>We also suggest the following amendments, which in our view would enhance consistency in the way the definition of the scope of entities which need to adopt IPSASs would be applied:</p> <p>1) The general description of the characteristics of the organisations to which IPSASs should apply should be accompanied by illustrative examples, which would clarify those circumstances in which application of IPSASs would be appropriate along the spectrum discussed in paragraphs 2.1 and 2.2 of the Consultation Paper. Application of the principles requires judgment but illustrative examples should in our view at least aim at eliminating inconsistencies in application for entities that are far from each other along the spectrum. The discussion in paragraphs 2.1 and 2.2 is useful in that regard and a more elaborated discussion should form part of the final illustrative guidance.</p> <p>2) Paragraph 6.8 of the Consultation Paper suggests a text describing the characteristics of the public sector entities following Option (1a) as proposed by the IPSASB. Paragraphs 6.9 to 6.11 provide additional guidance.</p> <p>We draw your attention to the last part of the text included under paragraph 6.8 (b): "IPSASs are designed to apply to entities that... (b) ... do not have capital providers that are seeking a return on their investment or a return of the investment." Characteristic (b) indicates how activities are funded and addresses the objective of the resource providers. We agree that the primary objective of the entity should be to provide a public service (as described under paragraph 6.8 (a)), but there may be instances where resource providers also give to the entity the secondary objective to make its best efforts to make some (minimal) profit, without putting into question the fact that any losses would continue to be compensated/funded by the resource providers. We therefore suggest that it be clarified that not seeking a return on investment is not contradictory to having an objective to make the best possible results, as any profit may be used by the entity to meet its service delivery objective. The key factor to consider is that capital providers do not seek a pay-out in the form of a dividend or in any other form on the capital they have provided.</p> <p>This could in our view prevent incorrect determination of the IPSAS scope by excluding those entities which satisfy all the characteristics described in paragraph 6.8 but whose capital providers might also seek some (minimal) profit-making as a secondary objective for part of their activities.</p>	Do not support importing GFS reporting guidelines and explanatory guidance in the IPSAS literature.

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			<p>3) In our comment letter to the questions raised in the IPSASB Exposure Draft 49 on Consolidated Financial Statements, we discussed the case of those entities that prepare their own financial statements using an accounting framework other than IPSAS (e.g. IFRS) and that are controlled by public sector entities preparing their financial statements under IPSAS (so called 'mixed groups').</p> <p>As we noted earlier, the principle that requires entities to apply "uniform accounting policies for like transactions and events in similar circumstances" would require those entities to make adjustments for IPSAS consolidation purposes only in those circumstances where their characteristics or transactions are not dissimilar. Where they are dissimilar, a different treatment (e.g. following IFRS) could be applied in the entity financial statements that are included in IPSAS consolidated financial statements at a higher level.</p> <p>Since the Consultation Paper is about the applicability of IPSASs to GBEs and other public sector entities, we believe a link should be made to the guidance that could eventually be included in the Consolidation standard on 'mixed groups'.</p>	Staff does not think that the purpose of this project is to discuss consolidation issues.
17	Yes	A	<p>Yes, I agree with the IPSASB's PV. I prefer Option 1a, so, I have uncertain if for public sector has exceptions in relation contracts of business for some activities. Although, the public sector can modify the formal type of the organizations or create news activities in its structure.</p> <p>However, is unclear for me if in the practice these modifications can impact the laws and jurisdictions for this standard, as, for example the sectors or areas with energy, communications, banks and technology. I believe that some sector or areas have formal structure, because these aspects described are very important for development in the country. Although, I do not recognize what is the risk of application for this Exposure Draft, I do not knowledge for this.</p> <p>For this, in the page 17 report in this draft that "A public corporation is an entity controlled by another public sector entity that is market producer, is entitled to own goods or assets in its own right, is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law, is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts and has a complete set of accounts, including a balance sheet of assets and liabilities."</p>	

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			<p>I considering that the business for public sector involves public interest and conflict interest in relation the government with supplier and others areas of the public sector. I do not explain about literature or references described in this discussion, because I agree with Board's, so, I have doubt in relation which these modifications that the governments can impact in the implementation of the exposure draft whereas the complexity of the public sector.</p> <p>The public sector is the bigger organization that includes all activities that exist for operation products and services to attend for citizens, so I understand that for IFAC/IPSASB does not have problems with the application of this standard needs to observe if has exceptions and I am considering the responsibility, high quality, accountability, form, evidence and transparency of the public sector and governments in relation the activities in practice around the world. I suggest for the Board's, if agrees, that consults the Key International Regulators.</p>	Staff notes that this suggestion might have major resource implications for the IPSASB.
18	Yes	A	<p>MICPA agrees with the IPSASB's Preliminary View and prefers Option 1a.</p> <p>Option 1a is a principles-based approach and leaves regulators and other relevant authorities to decide on borderline cases. However, MICPA is of the view that the degree of flexibility should not lead to inconsistent decision on what accounting standards should be applied for all borderline cases. Changes should only be allowed based on strong valid grounds.</p> <p>In this regard, there should also be transitional provisions to cater for such changes.</p>	Staff notes that the reasons for supporting Option 1a are coincident with the reasons stated in the CP.
19	Yes	A	<p>In line with our comments above, CIPFA strongly supports the view of the IPSASB that Approach 1 is the best way forward.</p> <p>CIPFA also agrees with the view of the majority of IPSASB members in support of Option 1a. While we can see some advantages in using the terminology of Government Finance Statistics, on balance we consider that it would be more helpful for the generality of IPSAS pronouncements to be framed using a single consistent and coherent terminology.</p>	Staff notes view that bridging

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			However, we recognise that many governments have examined the structure of their national entities using the GFS taxonomy and others may do so in future. In this context it might be helpful to have bridging guidance which can help governments consider how to use the results of GFS analysis to come to a view on the applicability of IPSAS to categories of entities in their jurisdiction.	guidance should be developed.
20	Yes	A	<p>As summed up under paragraph 7.7 of the Consultation Paper; we are in agreement with the preliminary view of the Board that Approach 1 is most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended. It is a high level, principles-based approach that draws on the Conceptual Framework. It is also consistent with IFRSs as issued by the IASB since option 1 would be better articulated with the Preface to IFRSs where the focus is on profit-oriented entities that are described rather than defined. In this case, the focus is on "...delivery of services to the public..."</p> <p>Option 1 (a) is more attractive than 1 (b) as it acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSASs. In addition, we believe that the scope of public sector accounting standard-setting should mirror that of the general government sector in GFS, we would be concerned in choosing option 1b that accounting standards would introduce terms that specifically serve the purpose of statistical reporting rather than that of financial reporting. Unless those terms are to be further used to depict operations that fall under the scope of other accounting standards, we would be reluctant to introduce them in a description of characteristics of entities that may apply IPSASs. In our opinion, introducing those terms does not help classifying entities as public sector, in light of the fact that regulators and relevant authorities may decide for a different classification. We opine that option 1a in that it would remain principles-based and thus converge with GFS. We however recommend that some of these terminologies may be included under basis for conclusion or implementation guidance in IPSAS 22 Disclosure of Financial information about the General Government Sector or even as Recommended Practice Guidelines (RPGs) if the aim is to narrow the gap between GFS and IPSAS.</p> <p>We note with concern that the consultation paper fails to address what will become of the current definition of GBEs in IPSAS 1 Presentation of Financial Statements. We wonder whether that definition will be merely removed and replaced with the proposed characteristics should option 1 be retained. We believe that previous attempt at defining GBEs is and remains a useful guidance, though not self-sufficient, we would be grateful if</p>	<p>Staff notes that the reasons for supporting Option 1a are coincident with the reasons stated in the CP.</p> <p>Suggestion to include the GBE definition in the Basis for Conclusions and need to</p>

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			the IPSASB provide clarification as to what is intended to become of that definition. We urge the Board to maintain a reference to that definition in the Basis for Conclusions.	clarify the future of the current definition of a GBE.
21	No		<p>We do not agree entirely with the IPSASB's PV that approach 1 is most appropriate simply because it focuses on the characteristics of entities for which IPSASs are intended. Although this approach is in tandem with IASB's approach to developing IFRSs, it should not be considered as the most appropriate for IPSASB's development of IPSASs. This is because, there are so many complexities that surround Public Sector Entities which are absent in Private Sector Entities. Hence the need to vary the approach.</p> <p>Although we agree with the position of majority of the IPSASB members that option 1a is a high level and principles based approach that acknowledges the role of regulators and other relevant authorities in determining the entities that should apply IPSASs, we however believe that options 2(a) and (b) are also principles based. Additional clarifications of, or restrictions to standards that promote comparability of financial reports do not and cannot in themselves, make an approach non-principles-based or rules-based.</p> <p>Consistent with our responses in the preceding paragraphs, we have no preference for either option 1a or option 1b.</p> <p>Although option 1a will not define GBEs, it will describe the characteristics of public entities, for which the IPSASB is developing IPSASs, leaving regulators and other relevant authorities with decision on borderline cases. This approach may amount to solving the existing complex issues superficially and may likely give rise to divergent practices within and across jurisdictions thus adversely affecting the qualitative characteristic of comparability.</p> <p>Option 1b on the other hand will import a number of terms and explanatory guidance into IPSASB literature from GFS reporting guidelines. This approach tends to tilt towards rules-based approach as a threshold may be required to be used in defining the phrase "economically significant prices" (which is the 50% sales to production costs ratio) as is the clear case in GFS. This may necessitate relying heavily on GFS reporting guidelines in this matter despite their focus on economic rather than financial analysis.</p>	<p>Staff does not support the argument that the specificity of public sector entities justifies a different approach from that of the IASB because, with its recent approval, the Conceptual Framework provides a good basis for identifying the public sector entities for which the IPSASB is developing IPSASs.</p> <p>Staff acknowledges that Option 1a may affect the qualitative characteristic of</p>

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				<p>comparability. However, staff notes that the IPSASB has no power to direct regulators and the GBE definition is also being interpreted in different ways.</p> <p>Option 1b relies heavily on GFS reporting guidelines.</p>
22	Yes	A	<p><u>B. Our Comment on the Consultation Paper</u></p> <p>We agree with the IPSASB's Approach 1 and prefer option 1a, about IPSASB's policy on public sector entities for which it is developing accounting standard and on GBEs. According to opinion 1a the description of the characteristics of public sector entities which IPSASs are intended for, based on using IPSASB's current and developing terminology.</p> <p><u>C. The basis for our comment and reasons for our view</u></p> <p>First we describe the following 3 main principles that guided us examining the two approaches. Based on those principles we explain why in our view opinion 1a is the preferred approach.</p> <p>1. <u>The 3 main principles guiding:</u></p>	

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SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>1.1 It is the role of national regulators and other relevant authorities in each jurisdiction to determine which entities should be required to prepare general purpose financial statements (GPFs) and the suite of accounting standards to be applied.</p> <p>Hence, we think the accounting standards should include a precise and explicit definition of the particular type of entity within the scope of the standards.</p> <p>Israeli Government Accounting Standards that are based on IPSAS's, are designed specifically for national government sector. Other entities, although not business or profit oriented, and although some are controlled by the government, are not subject to these Standards. The decision of the kind of accounting standards to apply in different sectors depends on various economical, political and practical national factors of each country.</p> <p>1.2 Inappropriate classification of a public sector entity may have unfortunate reporting consequences of not providing the users of the financial statements with relevant information. The objectives of financial reporting and the primary users of financial reports differ for entities that have primarily a service delivery objective and for those that are primarily profit-oriented. The objectives of public sector entities are reflected at the concepts in the IPSASB Conceptual Framework.</p> <p>On our opinion, it is important to focus on and clarify the definition of the term that describes the characteristics of public sector entities for which current and developing standards (IPSAS's) are to be applied.</p> <p>In making the decision whether to adopt IPSAS's for governments and entities that are in the process of considering what accounting standards to adopt and for what entities to apply them, it would be more appropriate and useful, if a straightforward scoping definition was included, describing the kinds of entities these Standards were developed for, instead of the kinds of entities that are excluded from the scope of these Standards.</p> <p>1.3 As the definition of a GBE can be interpreted differently, there may be a wide range of entities being described as GBEs, while possibly not being the entities the IPSASB had in mind while preparing the GBE definition.</p> <p>We are of the opinion that a definition of an entity which is within or outside the scope of a standard, should be made using descriptions that are easy to understand and can be checked. The definition should also delimit the</p>	

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>essential details relating to the essence of the term defined. Also, we think it is very important that a definition should not be one that would constitute a source of controversy about its meaning, and should not be subject to different interpretations.</p> <p>However, it should be said, that a definition should not be excluded, solely because it is subject to professional judgment and interpretations, as many of accounting definitions are.</p> <p>2. <u>Examining approaches based on the main principles mentioned above</u></p> <p>2.1. In its role as the international standard setter for the public sector, the IPSASB considers that it has a responsibility to be transparent about the types of public sector entities that it considers when developing IPSASs.</p> <p>In our opinion, in order for IPSASB to fulfill its responsibility, Approach 1 is the most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended for. Describing the entities for which IPSASs are developed for, rather than defining GBEs that are out of scope, would better inform users and regulators as to IPSASB's views regarding the entities for which it is developing IPSASs. It would acknowledge that regulators have the power to determine which entities should apply particular standards in their jurisdictions.</p> <p>However, keeping some form of general guidelines as to the characteristics of GBEs would also be useful for the local regulators in deciding what entities are of a more business nature, and therefore it wouldn't be appropriate for them to use these standards.</p> <p>2.2. Both options in Approach 1 are intended to give a clear indication of the types of entities that the IPSASB considers when developing IPSASs. However we agree that Option 1a gives a high level description of public sector entities which the IPSASB considers while developing IPSASs, using terminology drawn from IPSASB's current and developing literature, in particular the Conceptual Framework.</p> <p>We believe that Option 1a describes in a more appropriate way the definition and clarify the characteristics of a public sector entity. Moreover the use of IPSAS developing terminology enables to reflect in the definition the</p>	

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>primary objective of public sector entity to deliver services, explain the economic substance of its activities and would meet the qualitative characteristics of relevance and faithful representation.</p> <p>In our view Option 1a is preferable on Opinion 1b.</p> <p>Using terminology from a different methodology set, however converged it may be, may cause questions and problems in applying IPSASs for countries and entities that are not familiar with GFS. Furthermore, Opinion 1b reliance on concepts used in statistical guidelines may potentially mean that a number of terms and explanations would need to be introduced into the IPSASB's literature. We are of the opinion that examination of the characteristics of public sector entities using GFS reporting guidelines and explanatory guidance requires considerable judgment and thus may lead to diversity in the application.</p>	Using GFS terminology requires considerable judgment and thus may lead to diversity in the application.
23	Yes	A	<p>We agree with 1a) this option since the IPSASB's in essence maintain the accounting treatment and the original text of the NICs, international standard adopted by 130 jurisdictions approximately, therefore the IPSASB's increase both the quality and comparability of financial information submitted by public sector entities in several countries around the world. Furthermore, due to the use of IPSASB's is more flexible than the NICs since his adoption is not impose; in case of the existence of national governing accounting regulations practices and the presentation of the financial statements, IPSASB's not overlap with these criteria, but promotes harmony between these and the internal regulations of each country to contribute to greater comparability.</p>	Option 1a increases the quality and comparability of financial information with the benefits of IPSASs not being mandatory.
24	Yes	A	<p>DGFIP shares the IPSASB's preliminary view and considers that describing the public sector entities for which IPSASs are intended, based on their characteristics and specificities of public action, is more relevant compared to defining strictly the GBEs. Indeed, this description seems to us a pragmatic and functional approach, strongly linked with the primary function of public entities as stated in the conceptual framework.</p> <p>This approach allows to define a scope based on specificities of public entities regardless their legal status (central government, local authorities, agencies or other entities). Moreover, this preliminary view enables regulators and relevant authorities to decide on borderline cases, so as to offer the flexibility required by the heterogeneity of situations all around the world.</p>	

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>Furthermore, an approach based on accounting principles, using general accounting terminology, seems more appropriate than using government financial statistics concepts and definitions (GFS). As stated in our previous response, an alignment with GFS does not seem relevant because of their divergent objectives and scopes.</p> <p>The GFS is a statistical approach flow-based. The submitted comments in this CP demonstrates that systematical alignment between IPSASs (based only on the control criterion) and GFS does not make sense. Indeed, in option 1b, the scope of public-sector accounting standards cannot be strictly similar to general government sector (GGS) as defined in GFS (for which two criteria are taken into account: the non profit nature of the unit activity and the control).</p> <p>Consequently, option 1a seems, for DGFIP, more relevant than option 1b.</p>	IPSAS alignment with GFS is not relevant because of their divergent objectives and scopes.
25	Yes	A	<ul style="list-style-type: none"> We assume that there are two approaches to determine accounting standards that are applicable to government business enterprises (GBEs) as follows. Since there are various views on the operation and management of GBEs in each jurisdiction, we believe that an objective-oriented approach is appropriate. <ul style="list-style-type: none"> ➤ Definition approach <p>Definition approach organizes the characteristics of GBEs and develops the criteria for meeting the characteristics of GBEs and then automatically determines entities satisfying the criteria on the basis of the characteristics of GBEs. This approach is currently adopted in the International Public Sector Accounting Standards (IPSASs).</p> ➤ Objective-oriented approach <p>Objective-oriented approach considers intention or policies of governments. If a government has objective to manage the profitability of GBEs, it will apply the International Financial Reporting Standards (IFRSs). On the other hand, if its objective is to deliver services to the public, it will apply the IPSASs. We think this approach can enhance option 1a in the CP.</p> In order to definitely interpret the scope of GBEs outside the application of the IPSASs, the characteristics of public sector entities should be clearly explained and those which do not meet the characteristics will be 	

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>defined as the one outside the application of the IPSASs. We believe that this would be consistent with the purpose of the IPSASs.</p> <ul style="list-style-type: none"> Since it is unrealistic for the IPSASB to develop a single definition of GBEs applicable to every jurisdiction, we believe that Approach 1 is appropriate. <p>For the following reasons, we believe that Option 1a would be desirable.</p> <ul style="list-style-type: none"> We believe it would be helpful for IPSASB to use the current and developing terminology to describe characteristics of public sector entities from the viewpoint of the consistency with other requirements. We are concerned that the explanation of characteristics of public sector entities for which IPSASs are intended would be integrated into other guidelines. We are also concerned that option 1b can cause some mismatches between the conceptual framework for accounting and the terms used in government financial statistics (GFS). 	
26	Yes	B	<p>In general, we agree with the IPSASB's preliminary view that Option 1 is most appropriate. Similar to majority of the IPSASB members, we also support Option 1a as it is high level and principle based approach, as well as it acknowledges the role of regulators and other relevant authorities in determining which entities in their own jurisdictions should apply IPSASs.</p> <p>However, we wish to highlight the following:</p> <p>1. <u>Mutually exclusive or combined characteristics</u></p> <p>As proposed in the CP, Option 1a would describe the characteristics of the public sector entities in the following way:</p> <p>IPSASs are designed to apply to entities that:</p> <p>a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;</p>	Respondent seeks clarification about the characteristics and proposes changes.

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<p>b) Finance their activities, directly and indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.</p> <p>We wish to seek clarification whether the entities that should apply IPSASs should satisfy either one or both of the above characteristics. The entities that will be covered by Option 1a will be either wider or lesser, depending on whether the characteristics are mutually exclusive or combined. We propose the words "and/or" to be added between characteristics (a) and (b).</p> <p>2. <u>Timing to establish intention of the capital provider that seek a return on their investment or a return of the investment</u></p> <p>Characteristic (b) includes the phrase "do not have capital providers that are seeking a return on their investment or a return of the investment". In Malaysia, the capital providers of the entities that deliver services to the public usually do not seek a return on their investment or a return of the investment during the initial years of the entities' operation. This is normally due to those entities are start-up corporations and are unable to generate revenue during the initial years. However, capital providers' intention might change when an entity is able to operate independently and consistently make profits due to higher economies of scale and efficient processes. In such cases, we wish to seek clarification whether such entities should continue applying IPSASs.</p>	<p>Staff agrees with the suggestion (see paragraph 56 of the Issues Paper).</p> <p>Staff notes respondents' concern. Staff is persuaded by this concern and proposes IPSASB a redrafting of this characteristic (see paragraphs 53-55 of the Issues Paper).</p>
27	Yes	A	The Consultation Paper describes two approaches to provide greater clarity on the applicability of IPSASs to Government Business Enterprises (GBEs) and other public sector entities:	

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
			<ul style="list-style-type: none"> • Approach 1 that uses a principles basis to describe the characteristics of the public sector entities for which the IPSASB is developing IPSASs • Approach 2 that would modify the current definition of a GBE and then use the modified definition to describe the characteristics of public sector entities for which IPSAS are not intended. <p>We agree with IPSASB that it would be beneficial to provide greater clarity and that the best way to achieve this clarification is Approach 1, which describes the characteristics of public sector entities for which IPSASs are intended. We believe that Approach 1 will assist the IPSASB in the development of standards, will help 'educate' regulators and other relevant authorities in determining which entities should apply IPSASs, and assist preparers.</p> <p>We support Option 1a as it uses principles based on IPSASB's current and developing terminology that focus on the characteristics of public sector entities and will determine when IPSASs should be applied.</p> <p>Option 1b proposes using the International Monetary Fund's Government Finance Statistics (GFS) reporting guidelines and explanatory guidance for determining which entities should apply IPSASs. We do not support this approach because the basis of the proposed criteria under Option 1b would be the current and developing GFS terminology that is developed specifically for statistical reporting and not for financial reporting purposes. We think it is important that the IPSASB retain its responsibility and control over the terminology used in its accounting standards.</p>	Staff notes that this respondent thinks IPSASB should retain its responsibility and control over the terminology used in IPSAS.
28	Yes	B	<p>We agree with Approach 1a provided in the Consultation Paper, describing the characteristics of public sector entities for which IPSASs are intended. This approach is principles-based, is supported by the conceptual framework, and avoids the difficulties associated with the definition of Government Business Enterprises which may be applied differently in the diverse jurisdictions that have adopted IPSAS. This approach places importance on positive identification of those entities for which IPSAS are intended. However, we believe that the characteristics in paragraph 6.8 may need some revision, as not all public sector entities provide services directly to the public as indicated in 6.8(a), e.g. they may provide services to other public sector entities.</p>	<p>Respondent suggests revision to the characteristics.</p> <p>Staff is of the view that these types of entities should also be assessed whether they</p>

Respondents' Comments on SMCs in CP, *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*
 IPSASB Meeting (March 2015)

Response #	PV	SMC 1	Respondent Comments	Staff Comments
SMC 1: Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.				
				provide such services with a view to a return to investors.

SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.

Table 3: Overview of Responses SMC 2

Comment	Respondent #	Totals
Do not agree with PV	14, 21	2
Support Option 2a	-	
Support Option 2b	14	1
Support a different approach	21	1
Do not support Approach 2	01, 02, 03, 04, 06, 07, 08, 09, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 27, 28	25
Comment on SMC 2	06, 08, 10, 11, 20, 21, 22, 23, 24 = 9	
No comment SMC 2	01, 02, 03, 04, 07, 09, 12, 13, 15, 16, 17, 18, 19, 25, 26, 27, 28 = 17	
No clear view	05	1
Total Respondents		28

Table 4: Table of Responses SMC 2

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
01	We support the IPSASB's PV.	Do not support Approach 2.
02	Please, refer to the cover letter.	Do not support Approach 2.
03	As provided above we agree with the IPSASB's preliminary view.	Do not support Approach 2.
04	HoTARAC agrees with IPSASB's PV. Refer to response to Specific Matters for Comment 1.	Do not support Approach 2.
05	<p>With reference to the above options, Sasria SOC Ltd would accept Option 1.1 due to the following reasons:</p> <ul style="list-style-type: none"> – Sasria SOC Ltd is a GBE in terms of the definition in the IPSAS 1. – Paragraph 6.7 states that the primary objective of most public sector entities (where IPSASs would be applicable) is to deliver services to the public, rather than to make profits and generate a rate of return to the investor – Paragraph 2.1 that "at one end of the spectrum are entities likely to have characteristics similar to the profit-orientated entities for which the International Accounting Standards Board develops and maintains IFRS. Such entities would generally meet the current definition of a GBE" – Paragraph 3.1 The IPSASs are designed to apply to the general financial reports of all public sector entities other than GBEs. Public sector entites include national regional and related government entities. The IPSASs do not apply to GBEs. GBEs apply IFRSs. – Paragraph 3.5 GBEs include both trading enterprises, such as utiltiies, and financial enterprises, such as financial institutions. GBE's are no different from entites conducting similar activiites in the private sector. GBEs usually operate to make a profit. – Paragraph 3.20 The objectives of financial reporting are to provide financial information about the entity that is useful to users of the financial statements and decision makers. Even though we are compared to other 	<p>No clear view.</p> <p><i>Staff:</i>Response was submitted via SAASB and reflects jurisdictional concerns.</p> <p>Not the intention of CP to push entities currently applying IFRS to IPSAS.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>public sector entities we are also compared within the insurance industry, and changing from IFRS will be difficult to do this comparison.</p> <p>Sasria's response:</p> <p>Sasria SOC Ltd wishes to continue as a GBE and report using IFRS.</p>	
06	The XRB does not support Approach 2 because we do not consider that it will resolve all the issues with the current definition of GBE. Moreover, not being principle-based, the modified definition is likely to become dated quickly.	Do not support Approach 2.
07	See our comments to question one (1).	Do not support Approach 2.
08	<p>While Approach 2 aims to resolve the current problems in the application of the current definition of GBE, we have reservations with the Approach as it is difficult to define what a GBE is given different legal and policy issues applicable to GBEs in each jurisdiction. As such, we support the principle based approach taken in Approach 1 and the linkages to the <i>Conceptual Framework</i>. While we agree in principle that some of the changes made to clarify and/or modify the current definition may be useful, we are not in support of the two options as outlined below.</p> <p><u>Option 2a: clarifying the current definition</u></p> <p>While we support option 1a, if option 2 is supported by other respondents, our stakeholders suggested the use of the following GFS concepts.</p> <p>Paragraph 3.14 of the Consultation Paper indicates that the treatment of government subsidies received by an entity on its goods and services is unclear in determining whether it has recovered its costs in full or not. Stakeholders suggested that guidance, similar to that of the GFS reporting guidelines outlined in paragraph 5.16, should be developed that requires an assessment of the nature of subsidies and its impact on full cost recovery.</p> <p>In addition, we question whether the reference to "...at a profit or to achieve recovery of all fixed and variable costs of the <i>reporting period</i>" would result in a change in classification of an entity as a GBE in those reporting periods when the profit or full cost recovery objective is not achieved. If adopted, we would suggest that supporting</p>	<p>Do not support Approach 2.</p> <p>Clarification of subsidies received by an entity similar to GFS reporting guidelines.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>guidance, similar to that of the GFS reporting guidelines, be developed for the assessment to be undertaken over a sustained multiyear period rather than a single reporting period. It will clarify that entities making losses at a particular point in time can also be considered a GBE. Alternatively, it should be clear that the intention of the entity is considered in making this assessment, rather than whether full cost recovery is achieved or not.</p> <p><u>Option 2b: narrowing the current definition</u></p> <p>Our stakeholders indicated no support for option 2b as it may result in some entities applying a different reporting framework from year to year. For instance, depending on the funding, being a going concern could change from one year to the next.</p> <p>We recognise that a specific quantitative threshold should not be applied to determine the level of reliance on government funding. However, we believe it is important to clarify at what level the government funding received by an entity becomes so significant that it impacts its ability to conduct commercial activities.</p> <p>We also agree with the IPSASB's observation that the application of option 2b would restrict the number of entities that meet the definition of a GBE. From a South African perspective, there are GBEs that operate with a full cost recovery objective and also receive financial support from government, and would therefore not meet the proposed definition of a GBE under this option. In South Africa all GBEs have a mandate to address some policy objective such as providing services to recipients in remote areas, where under a profit objective no services could be rendered economically.</p>	<p>Guidance about assessment "at a profit or to achieve recovery of all fixed and variable costs of the reporting period" similar to GFS reporting guidelines.</p> <p>Focus on the intention for making profits.</p> <p>No quantitative threshold for level of reliance on government funding.</p>
10	<p>In our opinion, any per se exclusion of particular activities or particular entities from IPSASs application solely on the basis of specific institutional arrangements or legal forms would be artificial and unlikely to be justifiable in all circumstances. On this basis, we conclude that approach 2 is not appropriate going forward.</p> <p>Indeed, factors such as the intent for a public sector entity's activities to generate profits will generally not be of primary relevance to users of financial statements in making their overall assessments of the impact of a particular public sector entity's activities and its financial position. Intent as to profitability is also unlikely to be of significant relevance to users in the context of determining the most appropriate financial reporting framework. Instead, users looking at the activities of the public sector as a whole will wish to be assured as to the completeness of the activities</p>	<p>Do not support Approach 2.</p> <p>Intent to generate profits will not be primary relevant to users.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>of all public sector entities included in consolidated financial statements, where relevant. To the extent that users provide resources they will wish to be informed as to the management of, and use to which such resources have been put (Paras 2.3 et seq. and 2.11 of the CF).</p> <p>We appreciate that financial reporting frameworks may be considered acceptable for more than one purpose. Modifications can be made on consolidation as appropriate. In our view, approach 2 should also be rejected, as it would preclude flexibility.</p>	Approach precludes flexibility.
11	The SRS-CSPCP is of the opinion that Option 2b is useful, but would be difficult to apply because an exact definition of GBEs, that do not have to apply IPSASs, is difficult.	<p>Do not support Approach 2.</p> <p>Exact GBE definition is difficult to apply.</p>
13	ACAG agrees with the IPSASB's preliminary view of Approach 1. Therefore, ACAG has no further comments on Specific Matter for Comment 2.	Do not support Approach 2.
14	<p>We are in support of option 2(b).</p> <p>Per the description in the consultation paper, options 2(a) and (b) are not mutually exclusive. They are intended to clarify the existing definition of GBE and also to narrow it. The primary aim of entities using IPSAS is not to make profit. Companies that are in business to recover cost are also not profit oriented. Therefore such companies should be excluded from GBEs by narrowing the definition of GBEs to exclude cost recovery entities. The current definition of GBEs in 3.4 states that GBEs should have all the characteristics of a GBE before it can qualify as a GBE. Based on the jurisdiction of an entity, it may not have all the characteristics stated, yet it is a profit-oriented entity.</p> <p>Under the revised definition, entities may qualify as GBEs even if it cannot contract in its own name (6.19&6.20). Narrowing the definition to exclude cost recovery entities, would mean that all entities under GBEs would not be reliant on government funding to remain a going concern. It also further changes the words "at a profit" to "with a profit-oriented objective" (6.23b) to acknowledge the fact that profit-oriented entities can also make losses in its business operations. We believe option 2(b) has the following advantages:</p>	<p>Support Approach 2 and prefer option 2b.</p> <p>Limit the definition of GBE to profit oriented entities.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>a) Benchmark for deciding whether an entity applies IPSAS or IFRS</p> <p>The terminology GBE has been consistently used in IPSAS and has become the benchmark in making the decisions whether or not an entity within the Public Sector is required to apply IPSAS. For instance, where a Public Sector entity decides to opt for IPSAS as a financial reporting framework, it needs to go through the criteria for GBE. It is when an entity passes/ fails the GBE test that it can fully tilt towards IFRS or IPSAS.</p> <p>Where this criterion is taken off and option 1 is taken, more power will be given to regulators. This will leave room for individual regulators in different jurisdictions to have their own criteria for determining entities that qualify to use IPSAS.</p> <p>b) Limited definition of GBE to focus on profit oriented entities</p> <p>The preface to IFRS indicates that they are designed to apply to general purpose financial statements and other financial reporting of profit oriented entities.</p> <p>With the limited definition of a GBE focussing on profit oriented entities, once the preparer of financial statements establishes the objective of a reporting entity, the first test of determining the appropriate applicable financial reporting framework is checked. Then, the other narrow criteria for the GBE are applied to confirm the applicable standard.</p> <p>We believe this should be a simple process for every qualified accountant to be able to make a consistent judgement call rather than leave a grey area for a regulator to determine.</p>	
16	We refer to our comments to Question 1 of the Consultation Paper.	Do not support Approach 2.
17	None.	Do not support Approach 2.
18	Not applicable since MICPA agrees with the IPSASB's Preliminary View.	Do not support Approach 2.
19	Given that CIPFA agrees with the Board in respect of SMC1, we have no comments to make on SMC2.	Do not support Approach 2.

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
20	<p>We are in agreement with option 1.</p> <p>However we believe that some of the terminologies as explained above e.g. the definition of GBEs might be considered for inclusion in the basis for conclusion.</p>	Do not support Approach 2.
21	<p>We support a combination of Option 2a and Option 2b.</p> <p>Under Option 2a, we support three aspects of the clarification to the definition of GBEs as provided in parag. 6.19 (p.18). The three aspects we support are (a), (b), and (d). Under Option 2b, we support only one aspect of the definition as provided in parag. 6.23 (p.19), that is (c). We observed that (a) and (d) in the two definitions (i. e. 2a and 2b) are the same.</p> <ul style="list-style-type: none"> i. It is our belief that GBEs are established by law with clearly spelt out objectives, functions and powers. ii. The clarification of the definition of GBEs will be a step in the right direction as it will reduce the serious concerns that have been raised about the matter. It will also reduce divergent practices that will likely arise within and across jurisdictions thus promoting the qualitative characteristic of comparability. iii. The fact that the GBEs are established by laws with clearly spelt out objectives makes them more accountable. iv. We support a combination of Options 2a and 2b because they provided clear definitions of GBEs and also clarified the concept of full recovery cost. v. We support aspect (b) in Option 2a (6.19) because it recognizes both entities that can achieve recovery of full cost and those established with the objective of making profit. vi. We do not support aspect (b) in Option 2b (6.23) as a result of its restriction to the definition of GBEs as entities with profit oriented objective only. vii. We do not support aspect (c) in Option 2a (6.19) because it is not very explicit on the meaning of "reliant on continued government funding". However, explicit clarification has been made in aspect (C) of Option 2b (6.23) which informed our selection. With this exposition, the GBEs in this category are almost similar in nature with entities in the private sector for which IFRS are applied. 	Support Approach 2 with preference to a combination of Option 2a and 2b.

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>RECOMENDATIONS</p> <p>Under the revised definition of GBE in 6.19(a), the word “autonomy” may need to be added such that it reads as: “Has been assigned the financial and operational authority and autonomy in legislation” We believe that “authority” does not necessarily imply “autonomy” as it is possible for an entity to have authority without autonomy, since autonomy signifies “independence” while authority signifies “power”. It is possible for an entity to have powers that are subject to undue interference.</p> <p>Under 6.23(C), we recommend that two (2) phrases: “on a perpetual basis” and “unless such financial support are considered as addition to equity or debt” be added such that it reads: “Can prepare its financial statements on a going concern basis without being reliant on any continuing government funding or other forms of direct or indirect financial support from government on a perpetual basis (other than purchases of output at arm’s length). Such funding or financial support includes concessionary loans, government guarantees and grants for meeting service obligations; unless such financial support are considered as addition to equity or debt”</p> <p>The import of the phrase “on a perpetual basis” is to recognize the fact that government could support a GBE for a period of years to enable it stabilize financially and operationally. Such financial assistance does not continue perpetually.</p> <p>The import of the second phrase “unless such financial support are considered as addition to equity or debt” is to recognize the fact that GBEs could also benefit from government intervention funds (as may be akin to bailout) where the need arises to save strategic GBEs from collapse. If such supports are treated as addition to equity or debt, then the funds are not “free funds”, and therefore should be accommodated in the definition of GBE.</p> <p>Finally, we believe that relevant regulatory bodies in various jurisdictions can facilitate the classification of Public Sector Entities and their GBEs by compiling detailed list of entities that qualify for the application of IPSAS or IFRS.</p>	
22	<p>2.3. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reporting (GPFRs) for accountability purposes and for decision-making purposes. An inadequate classification of a public sector entity can undermine these financial reporting</p>	Do not support Approach 2.

Response #	Respondent Comments	Staff Comments
SMC 2: If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.		
	<p>objectives. In addition, inconsistent application of the GBE definition may significantly undermine comparisons between entities.</p> <p>Approach 2 intended to overcome the above implementation difficulties and problems in the definition of a GBE in IPSAS 1 and the diversity in the application of the GBEs definition in some jurisdictions. Approach 2 would seek to clarify and narrow the current definition of GBEs, so that it is applied more consistently and would clarify some issues with the current definition of a GBE.</p> <p>However, in light of the complexity of the issues, we agree that this approach would not eliminate possible inconsistencies in applying the definition, and therefore its impact might be limited and would only partially resolve problems and ambiguities in the definition of a GBE.</p>	
23	Currently We understand that "Public Sector" concerns central or federal governments, regional governments (eg state or departments, provinces, districts), local governments (eg municipalities, governors and councils) and public entities (eg public bodies boards, commissions and public companies), therefore we agree with 2a) this option since we believe a clear concept of "public sector" is needed, so that this definition covers the reality of all countries that adopted or are in process of adoption of these international standards.	<p>Do not support Approach 2.</p> <p>Clarification of term public sector is needed.</p>
24	<p>The current definition of GBEs does not succeed in solving all the existing issues. Indeed, there is still existing ambiguities. This may be the case for example for entities that do not meet all of the characteristics listed by IPSAS 1. It could lead to divergent interpretations due to the diverse situations across national jurisdictions.</p> <p>Establish a cumulative, comprehensive and relevant list, in order to define GBEs whatever their legal status, could not meet the wide variety of situations encountered.</p> <p>Consequently, option 2 (2a or 2b) is not supported by DGFIP.</p>	Do not support Approach 2.
25	Since we believe that Option 1a would be desirable, we do not have any responses to this question.	Do not support Approach 2.
27	We agree with the IPSASB's PV for the reasons described in our response to Specific Matters for Comment 1.	Do not support Approach 2.

Table 5: Table of Responses – Other Comments

Response #	Respondent Comments			Staff Comments
Other Comments				
13	Consultation paper Reference	Original Text	ACAG comments	
	Para 5.13	<i>...“they are centers of decision-making for all aspects of economic behaviour.</i>	This sentence is missing the end quotation.	
	Para 5.13	<i>But if the institutional unit is a restructuring unit, whatever its legal status, acts as a direct agent of the government, is not a market producer and its main function is to redistribute national income and wealth, channeling funds from one unit to the other, then it should be classified in the GGS.</i>	This sentence is difficult to read. ACAG suggests the following: But if the institutional unit is a restructuring unit (whatever its legal status), acts as a direct agent of the government, is not a market producer and its main function is to redistribute national income and wealth (channeling funds from one unit to the other), then it should be classified in the GGS.	
	Para 6.4	<i>The current approach may assist...</i>	The expression “current approach” in this context is confusing. It could mean the current approach adopted by IPSASB before any changes are made as a result of the Consultation Paper; alternatively it could be interpreted as the current approach being discussed in the section of the Consultation Paper. ACAG suggests replacing “current approach” with “Approach 1”.	

Response #	Respondent Comments			Staff Comments
Other Comments				
	Para 6.23(b)	<i>Delivers good and services, in the normal course of its business, to individuals and nongovernment organizations as well as other public sector entities with a profit-oriented objective;</i>	<p>The position of “with a profit-oriented objective” at the end is confusing as it could be interpreted that the “other public sector entities” to which the GBE delivers goods and services must have a profit-oriented objective.</p> <p>ACAG suggests the following:</p> <p>Has a profit-oriented objective in delivering goods and services, in the normal course of its business, to individuals and nongovernment organizations as well as other public sector entities.</p>	
19	<p>Additional comment on the implications of ‘IFRS converged IPSAS’</p> <p>We would note that the IPSASB standard setting process is not designed to directly converge with IFRS, but instead to minimise inessential differences and to rigorously and transparently justify any divergence deemed necessary, having regard to differences in the public sector financial reporting context which may include differences in economic substance, operating model, regulatory and budgetary frameworks, and differing stakeholder needs.</p> <p>Having said this, the effect of the convergence review is that, in general, financial reporting for profit-oriented activities is relatively similar, whether reported using IPSAS or IFRS. Similarly, for public sector entities that are primarily engaged in profit-oriented activities, the overall financial reporting should be quite similar whether it is developed using IPSAS or IFRS. In our view this is a good thing and may be particularly beneficial in jurisdictions where IPSAS are used in the public sector and IFRS or similar standards are used for other financial reporting. It means that the treatment of transactions and balances with similar economic substance should be similar regardless of sector. It would also mean that, where there is uncertainty over classification, there is less likelihood that the difference between applying IFRS or IPSAS will be a cause for concern or a motivation for favouring a particular classification.</p>			

Response #	Respondent Comments	Staff Comments
Other Comments		
22	<p><u>D. In conclusion</u></p> <p>After reviewing the two approaches, our opinion is that from the proposed approaches, 1a is the preferred one, consistent with two main aspects, as follows: (a) the role of the of regulators and other relevant authorities in each jurisdiction to determine which entities should be required to prepare general purpose financial statements and the suite of accounting standards to be applied; and (b) achieving the objectives of financial reporting by public sector entities, and being of high quality and reliable financial reporting.</p> <p>We also considered that such opinion will reflect the concepts and descriptions in the IPSASB Conceptual Framework.</p> <p>When examining the second approach, we reached the conclusion that despite the intentions to overcome the implementation difficulties and problems in the definition of a GBE, it is impossible to eliminate all the potential problems and ambiguities in the definition of a GBE. This can impair the quality of the financial information for users and, therefore, undermine the ability of the information to meet the objectives of financial reporting.</p> <p>However, GBEs may play a significant role for many governments that choose to manage some of their activities and achieve some of their service providing goals and objectives through the channels of special business oriented entities.</p> <p>Therefore, in our opinion, a third option may be introduced. An option that would include both – description of public sector entities as described in option 1a and having some kind of definition for GBEs. That definition can be revised and used in cases where a specific GBE reference is needed. In order to avoid possible issues with interpretations of the GBE definition, it is possible to include a description of a GBE that includes main characteristics, but that leaves room for professional judgment and local reporting requirements and regulations.</p>	

CONSULTATION PAPER, *THE APPLICABILITY OF IPSASS TO GOVERNMENT BUSINESS ENTERPRISES AND OTHER PUBLIC SECTOR ENTITIES*
LIST OF RESPONDENTS

Response #	Respondent Name	Country	Function
01	The International Consortium on Governmental Financial Management (ICGFM)	USA	Other
02	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
03	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body
04	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
05	Sasria SOC Ltd.	South Africa	Preparer
06	External Reporting Board (XRB)	New Zealand	Standard Setter/Standards Advisory Body
07	Zambia Institute of Chartered Accountants (ZICA)	Zambia	Member or Regional Body
08	Accounting Standards Board (ASB)	South Africa	Standard Setter/Standards Advisory Body
09	Swedish National Audit Office (SNAO)	Sweden	Audit Office
10	Institute of Public Auditors in Germany, Incorporated Association (IDW)	Germany	Member or Regional Body
11	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
12	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
13	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
14	The Institute of Chartered Accountants –Ghana (ICAG)	Ghana	Member or Regional Body
15	Ernst & Young (E&Y)	International	Accountancy Firm
16	PwC	International	Accountancy Firm
17	Denise Silva Ferreira Juvenal	Brazil	Other

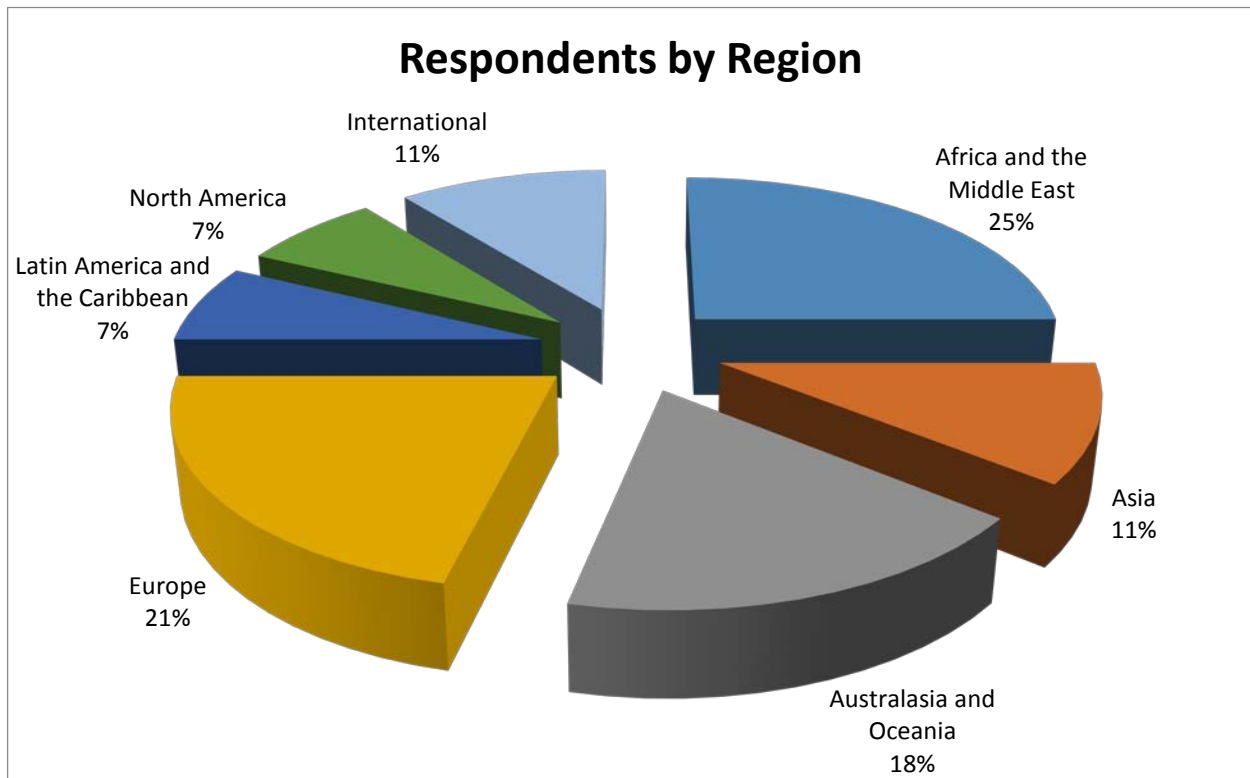
List of Respondents to CP, *Public Sector Combinations*
IPSASB Meeting (June 2014)

Response #	Respondent Name	Country	Function
18	The Malaysian Institute of Certified Public Accountants (MICPA)	Malaysia	Member or Regional Body
19	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
20	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
21	Association of National Accountants of Nigeria (ANAN)	Nigeria	Member or Regional Body
22	Israel Government Accounting Standards Board	Israel	Standard Setter/Standards Advisory Body
23	Asociación Interamericana de Contabilidad (AIC)	Latin America-Caribbean	Member or Regional Body
24	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
25	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
26	Malaysian Institute of Accountants (MIA)	Malaysia	Member or Regional Body
27	Joint Accounting Bodies (CPA Australia, Chartered Accountants Australia and New Zealand)	Australia and New Zealand	Member or Regional Body
28	Treasury Board of Canada Secretariat	Canada	Preparer

Analysis of Respondents by Region, Function, and Language

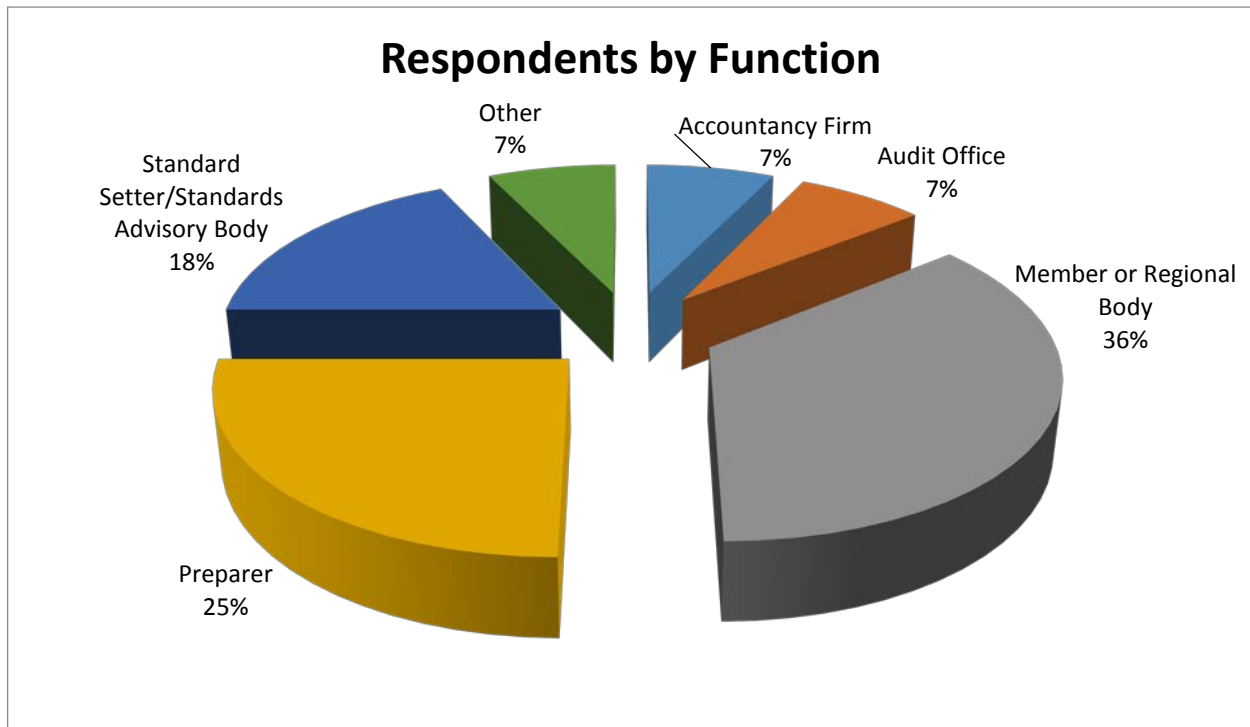
Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	5, 7, 8, 14, 20, 21, 22	7
Asia	18, 25, 26	3
Australasia and Oceania	4, 6, 12, 13, 27	5
Europe	2, 9, 10, 11, 19, 24	6
Latin America and the Caribbean	17, 23,	2
North America	3, 28	2
International	1, 15, 16	3
Total		28



Functional Breakdown

Function	Respondents	Total
Accountancy Firm	15, 16	2
Audit Office	9, 13	2
Member or Regional Body	10, 14, 18, 19, 20, 21, 23, 25, 26, 27	10
Preparer	4, 5, 6, 7, 8, 24, 28	7
Standard Setter/Standards Advisory Body	2, 3, 11, 12, 22	5
Other	1, 17	2
Total		28



Linguistic Breakdown

Language	Respondents	Total
English-Speaking	1, 4, 5, 6, 7, 8, 12, 13, 14, 19, 21, 27, 28	13
Non-English Speaking	2, 9, 10, 11, 17, 18, 22, 23, 24, 25, 26	11
Combination of English and Other	3, 15, 16, 20	4
Total		28

