



Mr. Andreas Bergmann
Chairman
International Public Sector Accounting
Standards Board

E-mail: stepheniefox@ipsasb.org

16 April 2013

Ref.: PSC/AKI/TSI/SRO

Dear Mr. Bergmann and Ms. Fox,

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

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

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

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

Yours sincerely,

A blue ink signature of André Killesse, featuring a stylized 'A' and 'K'.

André Killesse
President

A blue ink signature of Olivier Boutellis-Taft, featuring a stylized 'O' and 'B'.

Olivier Boutellis-Taft
Chief Executive

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

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

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

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

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

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

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

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

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

Question 5

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

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

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

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

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

Considerations to be taken into account at standard level

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

Specific Matter for Comment 6

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

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

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

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

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

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

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