Federation of European Accountants
Fédération des Experts comptables Européens

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Dear Ms Fox,

IPSASB Exposure Draft "Key Characteristics of the Public Sector with Potential Implications for Financial Reporting"

1. FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) is pleased to submit its views on this draft document.

General Comments on the Exposure Draft

2. We strongly support IPSASB's programme which combines IFRS converged IPSASs, public sector specific IPSASs and conceptual work and the aim to achieve the balance between maintaining comparability and addressing sector specific issues.

3. This draft document helpfully provides scene setting for current IPSAS and the agenda which IPSASB is supporting with the public sector conceptual framework.

Specific Matters for Comment

4. FEE's views are set out below on the two Specific Matters on which IPSASB would value comments.

Specific Matter for Comment 1

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

5. We agree that the document provides useful background information on key characteristics and identifies some potential implications for financial reporting.

Specific Matter for Comment 2

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

(a) As part of the Conceptual Framework;
(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or
(c) Elsewhere with some other status – please specify?

6. We strongly agree that it would be useful to include a document based on the Exposure Draft in IPSASB's literature.

7. We consider that a document based on the ED be preferably placed with the Conceptual Framework material to which it provides introductory background. Alternatively it could be put into the Handbook as part of the introductory material for the IPSAS standards.

8. The Exposure Draft is well drafted and the broad direction of the material is excellent.

9. We believe that the document will be most useful if it is clear and concise and so we would suggest some improvements. In general there is some material that needs more explanation; some duplicated material and some that is relevant to the public sector but does not provide additional content from a financial reporting standpoint.

10. The ED is careful to avoid representing approaches in particular jurisdictions as being universal but there are some cases where this approach has not been applied.

11. We attach some suggested drafting comments in the Annex.

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We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Philip Johnson
President

Encl.

ANNEX

DRAFTING COMMENTS ON IPSASB EXPOSURE DRAFT
Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

Section 1/ General comments on structure and repeated content

1. The introductory section seems to combine an explanation of the purpose of the paper with other material introducing the public sector. It might be helpful to separate into:

Introduction to the paper	(1.1 and 1.5-1.6)
Types of public sector entity and activity	(1.2-1.4).

2. The first sentence of paragraph 1.1 is not clear. It might be better to delete it rather than redraft: while it explains that the characteristics of the public sector are relevant to reporting on the sector, it adds little to the second sentence which sets out to identify distinguishing characteristics.

3. The material in paragraph 1.4 on public sector longevity could perhaps be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the role of government as provider of social benefits and collective goods. The material on government's role as regulator in section 7 role could perhaps be made shorter and moved to this section, in line with notes at 14 below.

Comments on section 2

4. Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:

   International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.

   and

   The significance of taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework, such as the definition of assets and liabilities.

   As redrafted, the second paragraph makes a very general point and might be better placed elsewhere or otherwise highlighted.

5. The discussion in paragraph 2.8 of public goods uses a very specific meaning which is not used by all economists and so might be incorrectly seen as equating non-excludable or 'pure' public goods with public sector provision, without commenting on wider public goods such as breathable air. It also characterises government intervention as arising from a particular economic

view: it might be better to reflect the fact that many governments provide services. The first half of the paragraph might therefore be deleted. The remaining text might more directly address existing practice, for example:

Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not provided by other entities, e.g., welfare programs, or because it is not considered appropriate for them to be provided through competitive market mechanisms on public policy grounds, e.g., policing and defense.

6. The first part of para 2.9 is wordy and could be simplified to say that government services will often be provided through non-exchange transactions.

Comments on section 3

7. Generally this section could be more concise. In particular paragraph 3.3 states that budgetary comparison is important and relevant to financial reporting and could be drafted as follows:

Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.

It may be possible to delete some of the second sentence which mainly reinforces the importance of the first sentence.

Comments on section 5

8. Paragraph 5.2 covers aspects of heritage assets which are important and relevant to government policy rather restricted to financial reporting. It might therefore be more appropriate to note:

- Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.
- Many heritage resources may not be sold in markets, or governments may wish to discourage sale.
- In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.

For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.

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Comments on Section 6

9. The overall tone of paras 6.4 and 6.5 could be read as implying that the going concern principle is less significant for government. This seems inappropriate particularly in the light of the recent economic crisis and IPSASB's work on long term fiscal sustainability. It might be useful to focus on the going concern assumption and noting that it is not often significantly challenged as governments have recourse to tax-raising powers.

10. We therefore suggest that para 6.4 could be clearer by explaining that financial reporting adopts a standardised (sic) approach to recognising and measuring assets and liabilities, consistent with a continuing entity rather than on the basis that assets or liabilities might need to be disposed of or settled at short notice under unfavourable terms.

11. Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in the section on non-exchange transactions.

Comments on Section 7

12. Paragraphs 7.1 to 7.2 seek to describe the regulatory role of government. Given the variety of different approaches internationally it is difficult to do this clearly.

13. The paragraph does not seem to explain why these distinctive characteristics are relevant to public sector financial reporting and in particular it is difficult to understand the basis for the suggestion in 7.2 that:

    "The existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector."

    It is not clear that the regulatory aspect of government raises reporting issues which are particularly different to other government programs with difficult to measure outcomes. If the intention is to suggest that regulation adds nuances to the consideration of the extent of government control then this could be clearer.

14. We suggest that the draft either needs more explanation as to how regulatory responsibilities might give rise to entity boundary and scoping issues. Alternatively this section could be shorter and combined with section 2 (see paragraph 4 above).

Comments on Section 9

15. Paragraphs 9.1 and 9.2 provide a discussion of the relationship between financial reporting and statistical accounting. For readers who are not already familiar with statistical/economic reporting this may not adequately explain why this discussion is important. This section would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:

9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.

9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically sub-divided into four subsectors: central government, state government, local government and social security funds.

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