

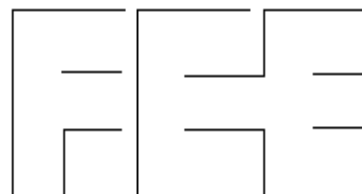
Date  
30 June 2004

Le Président

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The Technical Director  
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International Federation of Accountants  
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Dear Sir or Madam,

Re: IFAC Public Sector Committee invitation to comment – Revenue from Non-Exchange Transactions (including taxes and transfers)

1. Introduction

FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) is pleased to respond to the Invitation to Comment (ITC) issued by the IFAC Public Sector Committee (IFAC PSC) on *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*. FEE is supportive of the Standards Project and particularly welcomes progress made by the IFAC PSC in addressing difficult public sector specific issues. This response provides a few general comments and then considers the specific matters for comment on pages 3 and 4 of the ITC.

2. General comments

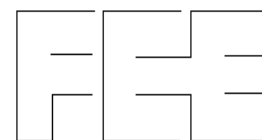
In general the FEE supports the “assets and liabilities “ approach that has been taken in the ITC. However, FEE emphasises the continuing importance of the performance statement to the users of the general purpose financial statements and the importance of budgetary reporting for the accountability of public sector entities.

3. Particular issues on which comments were invited by IFAC PSC

*Specific matter for comment (a)*

- 3.1. *Do you agree with the “assets and liabilities” approach to the recognition of revenue from non-exchange transactions that has been proposed in this ITC? That is, do you agree that revenue should be recognised when a public sector entity recognises an increase in assets / equity that does not arise from a contribution by owners?*

Subject to the points made in Section 2 FEE supports the “assets and liabilities” approach.



*Specific matter for comment (b)*

- 3.2. *Do you agree that public sector entities should be permitted to designate a transfer to a controlled entity as a contribution from owners as outlined in paragraph 2.27?*

FEE agrees that public sector entities should be permitted to designate a transfer to a controlled entity as a contribution from owners, where that transfer is to a body that the public sector entity controls or jointly controls.

*Specific matter for comment (c)*

- 3.3. *Do you believe that there are circumstances in which “contributions from owners”, as defined, may be non-exchange transactions?*

Yes. FEE believes that there are occasions in which “contributions from owners” are likely to be non-exchange transactions in the sense that the contributions are unlikely to involve an exchange of “approximately equal value”. However, given the approach that has been adopted in the ITC FEE does not consider that this issue is particularly significant.

*Specific matter for comment (d)*

- 3.4. *The Steering Committee proposes that some components of non-exchange transactions be accounted for in the same manner as exchange transactions. Do you agree with this treatment?*

FEE agrees with the approach suggested by the Steering Committee. However, in order to minimise burdens on the preparers of financial reports it is important that materiality is taken into account when disaggregating transactions.

*Specific matter for comment (e)*

- 3.5. *Do you agree that some non-exchange transactions can consist of an exchange component and a non-exchange component?*

FEE agrees that some non-exchange transactions can consist of an exchange component and a non-exchange component.

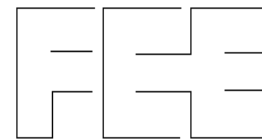
*Specific matter for comment (f)*

- 3.6. *Do you agree with the Steering Committee View that the taxable event for property taxes is the passing of the date on which taxes are levied, or the period for which the tax is levied, if the tax is levied on a periodic basis? If you do not agree, what do you think the taxable event is?*

FEE agrees that the taxable event for property taxes is the passing of the date on which taxes are levied or the period for which the tax is levied, if the tax is levied on a periodic basis. The detail of property taxation will vary in different jurisdictions. In some jurisdictions it is possible that a property owner is liable for an amount for the whole financial year if he/she is the occupier on a particular date. In other jurisdictions the tax liability will be on a periodic basis.

*Specific matter for comment (g)*

- 3.7. *Do you agree with the Steering Committee View that “expenses paid through the tax system” should be recognised separately in the statement of financial performance and that tax revenue should be grossed up in respect of expenses paid through the tax system? If you do not agree with the Steering Committee View, do you agree with the minority view that taxation revenues should be reported net of expenses paid through the tax system to the extent that an individual’s tax bill is reduced to zero?*



FEE agrees tax revenues should be grossed-up in respect of expenses paid through the tax system. A failure to gross-up would lead to an understatement of tax revenue.

*Specific matter for comment (h)*

- 3.8. *Do you agree with the proposal that disclosures about the “tax gap” should be made in the notes to the general-purpose financial report when they can be reliably estimated? The Steering Committee has not made a formal statement that such disclosures should be made, however, it would be interested to receive comments from respondents about whether it is possible to make reliable estimates of the tax gap. Do you think disclosures about the nature of the tax gap should be made in general purpose financial statements without including any numerical estimates of the amounts involved?*

FEE agrees that disclosures about the “tax gap” might be useful for the users of financial statements. However, our discussions suggest that it is important that the term “tax gap” is defined clearly. If the “tax gap” is defined very broadly to include tax related to criminal activities it is difficult to see that estimates will be sufficiently reliable for inclusion in the financial statements. There is also a related audit issue over whether such disclosures will meet “presents fairly or “true and fair “ standards.

FEE does not consider that general narrative disclosures about the nature of the tax gap, which are not supported by numerical estimates of the amounts involved, will be particularly useful to the users of financial statements.

*Specific matter for comment (i)*

- 3.9. *Do you agree that, where physical assets are transferred to a reporting entity subject to conditions that they be consumed in the provision of goods and services, revenue should be recognised in respect of the transfer as the physical asset is consumed?*

FEE agrees that where physical assets are transferred to a reporting entity subject to conditions that they be consumed in the provision of goods and services revenue should be recognised as the physical asset is consumed.

*Specific matter for comment (j)*

- 3.10. *Do you agree with the Steering Committee’s conclusions regarding stipulations? That is do you agree that:*

- (a) *restrictions do not give rise to liabilities that should be recognised in the statement of financial position;*

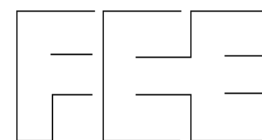
FEE agrees that restrictions do not give rise to liabilities. A restriction does not constitute a present obligation to transfer economic benefits.

- (b) *conditions give rise to liabilities that should be recognised in the statement of financial position; and*

FEE agrees that conditions as defined in the ITC give rise to liabilities, which should be recognised in the statement of financial position.

- (c) *time requirements give rise to liabilities that should be recognised in the statement of financial position?*

FEE considers that time requirements may be either conditions or restrictions and that the accounting treatment will depend on this classification.



*Specific matter for comment (k)*

- 3.11. *Do you agree with the proposition in paragraph 4.38 that liabilities should be reduced and revenue recognised when actual performance has occurred? Alternatively, do you believe that entities should decrease the liability and recognise revenue when it is probable that performance will occur?*

FEE agrees with the proposition in paragraph 4.38 that liabilities should be reduced and revenue recognised when actual performance has occurred.

*Specific matter for comment (l)*

- 3.12. *Do you agree with the Steering Committee View that voluntary services should not be recognised as assets and revenue in the general purpose financial statements?*

FEE agrees that voluntary services should not be recognised as assets and revenue in the general purpose financial statements. FEE has doubts that the provision of voluntary services meets the definition of an asset. In any case FEE has additional doubts over the reliability of measurement of voluntary services.

*Specific matter for comment (m)*

- 3.13. *Do you agree that the PSC should develop one IPSAS on revenue that includes both exchange and non-exchange transactions within its scope?*

Yes. The majority view of the FEE is that the medium term objective should be to develop one standard with both exchange and non-exchange transactions within its scope. Such an objective would be consistent with the “assets and liabilities” approach in the ITC. There is a minority view in the Committee that continues to have concerns with the definition of assets used by the IFAC PSC and linked to this the assets and liabilities approach which underpins the approach in the ITC. This view also considers that taxation is significantly different from revenue from exchange transactions and should be dealt with in a separate standard.

*Specific matter for comment (n)*

- 3.14. *Do you think that an IPSAS on revenue should require separate disclosure of revenue from exchange transactions and revenue from non-exchange transactions?*

FEE considers that separate disclosure might be worthwhile. However, as the Steering Committee has acknowledged in paragraph 1.13 of the ITC, differentiating exchange and non-exchange transactions is not straightforward and classifications are highly unlikely to be consistent between jurisdictions.

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

Yours sincerely,

David Devlin  
President