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By electronic submission

Dear Mr. Bergmann,

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

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Conceptual Framework Exposure Draft 2: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (hereinafter referred to as “the CF”).

General Comments

We remain unconvinced that there is any real justification for there to be differences between the private and public sectors in respect of this Phase of the CF. Therefore, whilst we generally believe the proposals in the ED are not problematical from a technical standpoint, we would like to re-affirm our previously stated views as to need to ensure appropriate liaison with IASB. Notwithstanding the IPSASB’s intention that the CF Project is not a convergence project, we do not believe the IPSASB should finalise its CF in its entirety without having achieved an appropriate degree of consensus with the IASB on key aspects. At the time the IPSASB commenced its work the IASB Project had been deferred. At the present time, however, the IASB has reactivated its own project and accelerated its work in this area, and we firmly

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believe that the IPSASB should consider delaying finalization of the CF to this end.

In this context, we would challenge the underlying presumption that deferred items and contributions from and distributions to owners represent public sector specific matters justifying different treatment from the private sector. We explain our reasoning and views in more detail subsequently in this letter where we have responded to the individual specific matters for comment (SMCs).

We further believe that the IPSASB needs to clarify to its constituents how this Phase of the CF will interact with the other Phases of the CF and, in particular, with Phase 4 “Presentation”, which will deal with presentation techniques including decisions on information selection within a report. We note that the IASB decided to abandon a phased approach in taking its own work forward. Indeed allowing the necessary time to deal with the interactions of the four Phases would also provide an opportunity for further liaison with the IASB as suggested above.

Responses to SMCs

Specific Matter for Comment 1:

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

In our opinion, clarification as to the term “ability” is needed. Using the term “with the ability to provide an inflow of service potential or economic benefits...” will mean that where there is no “ability” there is no asset. We believe there is a need for further guidance of the practical implications as to what “ability” shall constitute in this context. For example, whilst an item may have an inherent ability to provide an inflow of service potential or economic benefits, that same ability may be severely restricted or even negated by law or regulation. Other considerations such as the probability that the ability will actually result in an inflow may also need to be considered. In our view, the latter may be best included as a recognition criterion (see our response to SMC 7).

In our previous letter referred to above, we had also commented that specifying access rights, including the right to restrict or deny others’ access rights is overly restrictive. We continue to hold this view. In this context, and on the assumption that the IPSASB intends to retain this material, we believe the last sentence of paragraph 2.7 needs further clarification. In our opinion, it is possible that access rights to a particular resource could fall under the discretion of a different public sector entity (e.g. by means of bylaws etc. determined by another entity) than the entity seeking to account for the asset. As a result we

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suggest – as a minimum – the wording of the last sentence of paragraph 2.7 be amended to “...it may be questionable...”.

Specific Matter for Comment 2:

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

We do not have any technical objections to the proposed definition of a liability, however, as already mentioned in this and previous letters we urge the IPSASB to liaise with the IASB to ensure that differences between their respective frameworks are minimized in that they are limited to public sector specifics. With this one remark, we generally support the proposed definition.

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

The description of non-legal binding obligations does not sufficiently differentiate the factors that would be considered fundamental in determining the stage at which a liability shall be said to exist, i.e., at which point in time the entity has little realistic alternative to avoid settlement, and thus the obligation has to be classified as binding the entity (in a non-legal sense). A discussion of what the terms “little” and “realistic” are intended to mean in this context would be helpful.

We find the indicators listed in paragraph 3.12 unhelpful, and in the case of (c), the last sentence is misleading. If the definition of a liability is met, the absence of a budgetary provision can never be a reason for not meeting the definition of a liability. Using the word “may” implies that sometimes this could be the case, and using the word “recognition” misses the issue – the guidance is about definition. On balance we suggest this last sentence be deleted.

Specific Matter for Comment Nos. 3 and 4:

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

We have not identified any major issues from a technical standpoint.

Specific Matter for Comment 5:

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

Whilst we certainly have sympathy with the aim underlying the IPSASB’s proposals, we are neither convinced that such items should be classified as

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elements within the CF, nor that they should necessarily be restricted to non-exchange transactions as the IPSASB contends in BC45.

As the IPSASB rightly points out, there is considerable potential for misuse. We share the IPSASB's reservations and agree that limiting the usage of such items would need to be determined at standard setting level. Indeed, the variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. In our view, such items should form special sub categories of assets or liabilities, provided this is justified by the terms governing the individual transaction. Changes to the material in the sections dealing with assets and liabilities would be needed to explain the nature of items. For example the CF should explain how control might be determined (i.e., when funds that have advanced for a specific purpose are subject to repayment unless the terms of their advance are met in a specified timeframe). We also note that the IPSASB has not justified why it believes that excluding the elements deferred inflows and outflows from a computation of net assets but reflected in the computation of net financial position would be helpful. Nor has the Board explained the purpose these respective terms serve (currently BC47 only explains the term "net financial position").

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

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

No, as explained above, we do not support either the decision to define deferred inflows and deferred outflows nor the proposed restriction to only non-exchange transactions within the public sector.

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

As explained above, we believe that deferred items should not be classified as elements. The variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. Firm requirements will therefore have to be established at standard setting level.

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Specific Matter for Comment 6:

- a. *Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*
- b. *We refer to our comments above. Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

Regarding the proposal to define ownership contributions and ownership distributions as elements, we have similar views to those expressed in response to SMC 5. We do, however, share the concerns raised in the BC49 regarding the concept of ownership and agree with the Board's acknowledgement in BC 50 that in certain circumstances these are part of the net financial position. Again this will depend on specific criteria, including the formal entity structure, and thus we suggest this also needs to be addressed at the level of standard setting rather than a conceptual framework level.

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

We refer to our response to b.

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

We refer to our comments above. We believe there is merit in subcategorizing ownership interests within net financial position, as this identifies the resources according to their ownership, when a formal ownership structure exists. However this is also a matter for consideration at standard setting level.

Specific Matter for Comment 7:

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

We do not see that there are any public sector specifics that would justify a different approach to recognition from that taken by the IASB.

Accordingly, at the present time we suggest that it is necessary for the CF to be clear that in assessing existence uncertainty in relation to assets and liabilities there it has to be probable that any future benefit associated with the item will flow to or from the entity. The factors relevant for this assessment have been discussed in the individual sections relating to assets and liabilities. However,

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the second sentence of paragraph 7.4 needs to be precise on this point, i.e. clarify that the probability has to exist. We note however that the IASB papers from February 2013 indicate that retention of this “probability test” is one of the issues subject to further discussion.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

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Chief Executive Director

Viola Eulner
Technical Manager

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