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Stephenie Fox
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International Public Sector Accounting Standards Board
International Federation of Accountants
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27 August 2013

Dear Ms. Fox

Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on the above Exposure Draft (ED or proposal).

General comments

We support and commend the Board for undertaking this difficult project. As reiterated in our other comment letters on the IPSASB's EDs for Phases 2 and 3 of the Framework, we strongly encourage the Board to closely monitor the development of the International Accounting Standards Board's (IASB) conceptual framework, especially the release of the IASB's Discussion Paper on its Conceptual Framework in July this year and consider the relevance and appropriateness of the decisions taken by the IASB for the IPSASB's conceptual framework.

Furthermore, we would encourage the Board to continue monitoring the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI)'s work in its development of a robust presentation framework for public sector entities.

In addition, we still see a need that the current IPSASB's definitions of presentation, display and disclosure could be improved. We encourage the Board to come up with more robust definitions at the conceptual level that reflects both the understanding of that terminology in the private sector as well as the wider scope of financial reporting in the public sector.

Lack of discussion on how the Board would tackle presentation requirements in new or revised standards

However, there seems to be a lack of discussion in the ED that would guide the IPSASB in its development of presentation requirements for IPSASs (or guidelines in the case of RPGs). For example, there is no discussion of how the IPSASB would tackle the review of existing presentation requirements when developing new presentation requirements in order to minimize duplicate requirements; or providing useful disclosures emphasizing the way particular transactions (e.g. financial instruments) have been accounted and the impact on an entity the particular economic phenomenon has on the entity in order to enhance users' understanding.

More guidance on balance between information usefulness and information overload

On the issue of information overload, section 2 of the ED (paragraph 2.6 & 2.7 in particular) discusses appropriate information selection in order to meet the objectives of financial reporting, which would in turn avoid information overload; and the need to provide an appropriate level of detail. However, the ED does not elaborate or explain how that could be achieved. For example, what are the criteria and thought process that preparers need to go through, in order to provide an appropriate level of detail when trying to meet the objectives of financial reporting? Further guidance would be helpful for preparers in deciding the appropriate totals, subtotals and line items to display, so that aggregated or disaggregated information, when displayed appropriately, would enhance users' understanding of the financial report. Furthermore, sufficient information need to be provided in order for users to identify the key drivers of an entity's performance and financial position, and the causes for uncertainties and judgements involved on measurements (including both financial and non-financial KPIs) used in GPFs.

Lack of linkage between presentation of information and assessment of performance

We also observe a lack of discussion on the linkage between presentation of information and users' assessment of financial performance of the entity through the financial information presented in GPFs. As a consequence of the ongoing sovereign debt crisis, citizens and other stakeholders have demanded for greater transparency and accountability in governments' finances. As such, information on performance and financial position is crucial for governments (and other decision-makers) who rely on these measures provided in the statements of financial performance, financial position and cash flows when making decisions on resource allocation. Bondholders and credit-rating agencies also rely on this information in making decisions about resource provision and credit-worthiness of the entity, and citizens rely on it when assessing stewardship of the government entities' resource deployment.

Please find our responses to the specific matters for comments set out in the Appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller-Marques Berger at (+49) 711 9881 15844 or via email at thomas.muellermarques.berger@de.ey.com or Serene Seah-Tan at (+44) 20 7980 0625 or via email at serene.seah-tan@uk.ey.com.

Yours sincerely,

Ernst + Young Global Limited

Appendix

Specific matters for comment 1

Do you agree with the proposed descriptions of 'presentation', 'display', 'disclosure' and the relationships between them in Section 1? If not, how would you modify them?

Presentation

Consistent with our previous comment letter for the Conceptual Framework Phase 4 Presentation consultation paper (CP), we do not think it is necessary to have a new meaning for 'presentation' as described in this ED, and would support keeping the term 'presentation and disclosure' which is commonly understood and used in other frameworks.

The way that 'presentation' is described in the ED, is similar to the CP, which broadly encompasses the selection, location and organization of information that is displayed and disclosed in GPFRs. Notwithstanding our preference to revert to a commonly used and understood terminology, we think the definition and description is clear in the ED.

In relation to the description of the aim of presentation as described in paragraph 1.2 which currently states that 'Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the QCs...' - when discussing the objective of presenting financial information, wouldn't the most important aim be to meet the objectives, and not merely contributing towards the objectives of financial reporting? Therefore we suggest the IPSASB to word this paragraph stronger than it currently is.

Display

We support the notion of 'display' for information in GPFRs but as mentioned previously, would encourage the Board to keep to the commonly understood term of 'presentation'. The discussion in paragraph 1.3 is helpful to readers but the last sentence - 'Displayed information is presented prominently, using appropriate presentation techniques such as clear labeling, borders, tables or graphs' seems overly descriptive, and would be better placed in section 4 'Organization of information within the financial statements' which provides further guidance on the form of information presented.

Disclosure

We support the notion of 'disclosure' for information in GPFRs but as mentioned previously, would encourage the Board to keep to the commonly understood term of 'disclosure'. For example, in its recent Discussion Paper the IASB has defined disclosure as "the process of providing useful financial information about the reporting entity to users. The financial statements, including the amounts and descriptions presented in the primary financial statements and the information included in the notes to the financial statements, are, as a whole, a form of disclosure".

With regards to disclosed information as defined by the IPSASB we would like to underline that such information will not only help users to understand the displayed information. Information such as contingent liabilities are stand-alone information provided in the notes and they are of equal importance despite not providing information that directly makes displayed information useful.

Purposes and objectives of primary financial statements

We also think that there is a lack of discussion of display/presentation principles and objectives for primary financial statements:

- ▶ **Statement of financial performance**

As mentioned in our cover letter, there is a lack of discussion on the relationship between reporting on performance and the objectives of presentation. We believe that in order for users to better understand the results in the statement of financial performance, it would be helpful to clarify the purpose of that statement; to describe how recognized items of revenue and expense should be presented - aggregated or disaggregated - in a meaningful manner (such as grouping of similar items, usage of subtotals) in order for users to fully understand how efficiently and effectively those accountable (e.g. councilors/parliamentarians) have managed the resources of the entity. In addition, the information should contribute to a user's assessment of an entity's future prospects.

- ▶ **Statement of cash flows and statement of financial position**

Besides the statement of financial performance, the statement of cash flows provides useful information about an entity's activities in generating cash to repay debt, maintain or expand operating capacity; about its financing activities; and about its investing or spending of cash. This information when combined with information in the rest of the primary financial statements is useful in assessing factors that may affect an entity's liquidity and financial flexibility. The statement of financial position also depicts a view of the recognized resources (both economic and service potential) and claims against the entity (economic and service outflows) at a reporting date.

Within the conceptual framework, we believe that the perceived limitations of historical accounting information need to be discussed in the context of other types of reporting, in particular, long term fiscal sustainability, service performance reporting and budgetary reporting. We believe that the robust information from primary financial statements contribute towards, and provide the necessary data for all general purpose financial reports.

Disclosure

In relation to the discussion in paragraph 1.4 on disclosure, it could be expanded to emphasize the role of notes disclosure as follows: 'Disclosed information should supplement and complement displayed information by making ~~makes~~ displayed information more useful, and by providing detail that will help users to understand the displayed information...'

Specific matters for comment 2

Do you agree with the identification of three presentation decisions (selection, location and organization) in section 1? If not, how would you modify the identification of presentation decisions?

We agree with the identification of the three presentation decisions.

However, paragraph 1.9 talks only about matters included within the scope of financial reporting. We would recommend that the Board be more explicit in their discussion in paragraphs 1.8 & 1.9 on the other reports, and that the scope of the presentation framework covers the preparation of such reports, if that's what the Board intended. We think that the conceptual framework should be broad enough to cover these reports. In addition, it is unclear whether it is the Board's intention to scope the information described in Conceptual Framework Chapter 2 paragraphs 14 - 31 into this section of the Framework.

Specific matters for comment 3

Do you agree with the proposed approach to making presentation decisions in Section 1? If not, how would you modify it?

We support the Board's proposal and discussion on how presentation decisions are made. However the discussion could be expanded for more guidance on the process and considerations to be undertaken in making those decisions.

Further, we suggest that paragraph 1.10 be expanded to discuss the drivers for 'high level' and 'lower level' decisions. Example of drivers of decisions could include:

- ▶ Mandatory: regulatory (accounting/legislative/parliamentary) requirements
- ▶ Voluntary: stakeholders' (citizens/bondholders) expectations

Specific matters for comment 4

Do you agree with the description of information selection in Section 2:

- (a) In the financial statements
- (b) Within other GPFs?

If not, how would you modify the description(s)?

We agree with the description of information selection in section 2 but suggest the following changes:

- ▶ Within paragraph 2.3 - We suggest including the discussion of consistency and comparability of information. Information should be presented consistently over time so that users will be able to compare the performance of the entity over time.
- ▶ As mentioned previously, it would be helpful to clarify in paragraph 2.5, what other GPFs might entail e.g. long term fiscal sustainability information, budgetary information or service performance reporting information.

Specific matters for comment 5

Do you agree with the description of information location in Section 3:

- a) In the financial statements;
- b) In other GFRs
- c) Between different reports within GFRs?

If not how would you modify the description (s)?

We agree with the description of information location in section 3.

Specific matters for comment 6

Do you agree with the description of information organization in Section 4:

- a) In the financial statements and
- b) In other GFRs?

If not, how would you modify the description(s)?

We agree with the description of information organization in Section 4.

Specific matters for comment 7

Do you consider that CF-ED4 contains sufficient detail on concepts applicable to presentation in GFRs, including the financial statements, of governments and other public sector entities? If not, how would you extend the proposals?

We would recommend clarifying the reporting scope of 'other GFRs'.