

International Federation of Accountants
International Public Sector Accounting Standards Board

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To : Technical Director at edcomments@ifac.org

On: Conceptual Framework General Purpose Financial Reporting by Public Sector Entities

By: Dr. Joseph S. Maresca CPA, CISA of the USA

Colleagues,

I thank you for the opportunity to make this submission to IFAC. Herewith are the comments.

Summary: IPSASB encourages public sector entities to develop the accrual basis of accounting. The qualitative dimensions of accounting include relevance, representational faithfulness, understandability, timeliness, comparability and verifiability.

Assumptions are set forth on pp.8 of the issuance. There are no new authoritative requirements for public sector entities. The General Purpose Financial Statements must meet current user needs. The objectives of financial reporting by the public sector entities are to provide accountability and a rational resource allocation. The scope of the financial reporting includes economic resources, the effect of transactional reporting entity compliance, achievements of service delivery , prospective financial data and the qualitative dimension.

Critique: With regard to IPSASB, there are no new authoritative requirements for financial reporting. There are a number of areas where new requirements could provide users of financial statements with more relevant information. For instance, a moving average 100 day or 200 day moving average might be useful in valuing securities transactions at the interim date. Over the past year, the VIX index has been highly variable due to the gyrations in the global markets. A moving average valuation for stocks would help to provide users of financial statements with more timely valuations with less variability. Concurrent with enhanced valuations is the need for inter-regulatory oversight or reporting. There needs to be a mechanism to combine the bank regulatory reporting with the investor/investee regulatory apparatus of the bourses. An example might provide better clarity.

At the year end 2003, the Comptroller of the Currency in the USA issued a report showing 99% of the notional amount of derivatives residing in just 25 banks and 96% of the notional amount of derivatives in just 7 banks. This type of audit finding begged for enhanced regulatory oversight from the Securities and Exchange Commission. This oversight never occurred in any substantial way. The oversight could have provided for stricter trading margins and more audit oversight of Credit Agencies. Internationally, the various banking regulators should have a regulatory liaison with the various bourses in order to integrate bank audit findings into the trading regulatory structure.

There is a related need for inter-regulatory oversight in the parent/subsidiary reporting for consolidation purposes. The home office of the parent entity may be governed by

the prevailing laws of the host country where the corporate headquarter operations are domiciled. The problem comes in consolidation of the parent/subsidiary transactions when such transactions are governed by inconsistent statutes. On a transactional level, laws may vary in accordance with :

Under the Principle of Comity, one nation will defer and give effect to the laws and judicial decrees of another nation, as long as the laws and judicial decrees are consistent with the law and judicial decrees of the accommodating party. The Act of State Doctrine is judicially created doctrine which states that one country will not examine the validity of public acts committed by a recognized foreign government within its own boundaries. This doctrine is premised on the over-riding need for quiescence in international diplomatic relations. Under certain conditions, the doctrine of sovereign immunity provides immunity for foreign nations from the jurisdiction of American courts.

Commercial contracts have specific legal requirements and consequences in an international setting or venue. Contracts should provide for choice of language. The choice of forum dictates the selection of a forum where the dispute will be litigated. The parties may choose the body of law relevant to any potential contractual litigation. Force majeure clauses may stipulate that a number of eventualities including acts of G-d may excuse a party from liability for nonperformance. i.e. Outsourcing transactions processing in an earthquake zone or area prone to torrential rain or flooding

Arbitration of disputes is an increasingly popular alternative to litigation when dealing with international sale of goods. The parties may agree to be bound by a decision of a specified disinterested party if a dispute arises.

P. 19 Section 2.6

This section should mention the Independent Audit Committee of the Board of Directors. The audit budget and oversight should come from the Independent Audit Committee of the Board of Directors and not management itself. Management does not have the requisite independence to hire, budget and monitor the activities of the auditors.

P. 24 Section 2.22

There should be a reference to the entity "Mission"

P. 38

Materiality is a pervasive constraint. The concept may be difficult to implement. Sometimes interdependency is the most critical constraining factor. Timing differences in transactional processing are other limiting factors .

by Dr. Joseph S. Maresca CPA, CISA of the USA