KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8871
Fax +44 (0)20 7694 8429
mary.tokar@kpmgifrg.com

Ms Stephanie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto
Ontario M5V 3H2 CANADA

Your ref	Improvements to IPSASs 2011 ED 45
Our ref	110605 draft letter to Ms Stephanie Fox
Contact	Mary B Tokar (+44 20 76948288) Archie G Johnston (+1 604 527 3757)

22 July 2011

Dear Ms. Fox

Improvements to IPSASs 2011

Summary comments

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') entitled *Improvements to IPSASs 2011*, dated March 2011. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

We recognize the need for a regular review of International Public Sector Accounting Standards ('IPSASs') and support the concept of an annual improvements project. We note that the 2011 annual improvements are not based on the latest annual improvements to International Financial Reporting Standards ('IFRSs') introduced by the International Accounting Standards Board ('IASB'), unlike the annual improvements made in previous years. Whilst automatic copying of IASB exercises is not needed, this does mean there is a risk that IFRSs and IPSASs will diverge.

While supportive of the annual improvements, we have considered the specific matter for comments in the ED and have some comments on specific issues addressed in the ED. These follow below:

Specific Matter for Comments

You ask whether there are *"amendments that the IPSASB needs to consider in future Improvements to IPSASs projects."* We have not identified specific amendments. However, we would request the IPSASB to review the methodology of such exercises.

In particular we note that, in the past, the IPSASB's Improvements project has been based on the previous year's project of the IASB – in other words the IPSAS have been lagging behind their IFRS equivalents by a year. We would therefore ask whether there is scope for IPSASB and IASB Technical Staff to work together to identify and present items for improvements concurrently, so that IPSAS updates are more timely.

Specific matters for comment

Following our review of the proposals, we would like to make the following specific comments:

Part I: Deletion of Introduction Paragraphs

We fully concur with the IPSASB that the IPSASs should be presented consistently. Moreover, the IPSASB is correct in stating that the contents of the Introduction Paragraphs (summary of rationale for and contents of the standard; key features of the standard; significant changes from previous requirements) are already stated elsewhere in each standard.

However, we disagree with the proposal to delete the Introduction Paragraphs. It is useful to users of the standards to have this information in a single place, where it can be easily read. The standards are long and it is not always easy to find the information required. Moreover, whilst it is correct that “Introductions are non-authoritative and users should refer to the detailed requirements of the Standard”, this does not mean that Introductions lack value. Without an introductory summary, users may find it more difficult to identify the existence of important issues in a Standard or understand the context of the changes proposed in updated standards.

IFRSs have introductions and we and other users find these helpful. It seems inconsistent to remove them from IPSASs.

We therefore recommend that this Part be revised.

1. Rather than delete the introductions from the 21 IPSASs that have them, they should be added to the 10 IPSASs that lack them.
2. A standard format should be developed for the introductions and existing introductions should be amended where necessary.

Part II: Insertion of Objective Paragraphs

We fully support the IPSASB’s intention of adding these paragraphs, which will assist preparers and users of IPSASs. We have the following comments concerning two of the specific proposals:

- IPSAS 6**,** *Consolidated and Separate Financial Statements* – This should be amended to include separate as well as consolidated financial statements. The following suggested draft is based on paragraph IN4 of the Introduction to IAS 27, *Consolidated and Separate Financial Statements* (i.e. the 2008 standard **before** it was amended earlier this year):

  > The objective of this Standard is to enhance the relevance, reliability and comparability of the information that a controlling entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. This Standard also prescribes the accounting requirements for controlled entities, jointly controlled entities, and associates when an entity presents separate financial statements.

- IPSAS 7**,** *Investments in Associates* – This should be amended to include recognition of investments in associates, which is an important part of the standard. We suggest the following draft (additions and changes highlighted):

> The objective of this Standard is to prescribe the recognition by an investor of an investment in an associate and the accounting treatment ~~for~~ by an investor in accounting for such investments ~~in associates~~ in its consolidated financial statements and separate financial statements (where prepared).

Part **III: General Improvements:**

We disagree with the proposal to delete the references in IPSAS 16 and 17 to exchanges of assets which lack commercial substance.

We note the reference to non-exchange transactions in paragraph 27 of each Standard. However, paragraphs 8-10 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers),* makes it clear that non-exchange transactions are defined as transactions which do **not** involve exchanges of approximately equal value. We also note that there is diversity in practice in how exchange and non-exchange transactions are determined. Accordingly we consider there is a risk that some transactions may not be caught under either IPSAS 16 or 17, on the one hand, or IPSAS 23, on the other.

In addition, some transactions executed by public sector entities involve exchanges of assets with approximately equal value which result in little or no change in the economic status of either entity (i.e. they lack commercial substance as defined in IPSAS 16 or 17 as there is no change in the configuration risk of the associated cashflows, nor in the entity specific values). Two examples are:

1 Exchanges of parcels of land between an urban public sector agency and a developer, enabling the agency to obtain land in a blighted area in order to redevelop it; or

2 Exchanges of artefacts between museums.

In our opinion, these types of transactions lack commercial substance but do not meet the definition of a non-exchange transaction as specified in paragraph 27 of IPSAS 16 and 17 and in IPSAS 23 and, therefore, deleting these references in IPSAS 16 and 17 would leave no clear guidance as to how these transactions should be accounted for. We therefore recommend that these references are not deleted.

Apart from that, the changes in Part III seem reasonable and we are happy to support them. We have one comment on details, as follows.

- IPSAS 19: The new paragraph 1(d) would exclude from the scope of the standard "Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts". This replaces the exclusion "Those [provisions, contingent liabilities and contingent assets] arising in insurance entities from contracts with policyholders".

  This change follows IFRS, where IAS 37 excludes "insurance contracts (see IFRS 4 *Insurance Contracts*)"; however, there is a significant difference in that IFRS refers to the international standard set by the IASB, whilst this ED includes national standards. There is therefore a risk that practical application will vary significantly from one country to another.

Whilst recognizing that the proposed draft is an ideal to aim at, we therefore suggest that this change be deferred until there is an IPSAS on Insurance Contracts.

KPMG appreciates the opportunity to respond to this Exposure Draft. Please contact Archie Johnston at +1 604 527-3757, Peter Greenwood at +1 604 691 3187, Mark Jerome at +856 20 7808 3399 or Mary Tokar at +44 207 694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited