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ESTAT/C-TF EPSAS/AR/ms/D(2014)

NOTE TO THE IPSAS BOARD

Subject: Comments to IPSASB Strategy Consultation

We are grateful for the opportunity to comment on the future strategic direction of the IPSAS Board and on the priority of individual projects for the five-year period from 2015-2019. As the European Commission (hereinafter referred to as “Commission”) is required by the Financial Regulation of the European Union (EU) to prepare financial statements for its institutions and bodies based on IPSAS, this consultation is very important as it provides an opportunity for preparers and other stakeholders to participate in planning the standard setting agenda for the coming years and it also enhances the legitimacy of IPSASs. Moreover, this is also of importance to the Commission in the context of the development of European Public Sector Accounting Standards (EPSAS) and its work on government finance statistics generally.

The Commission very much welcomes the priority currently being given by the Board to completing the IPSAS Conceptual Framework in the short-term. Once this project is complete, the Commission would propose that freed-up resources should be devoted as a priority to projects of direct relevance for public sector financial reporting, including, and not least, those which are needed to maintain or renew the existing standards for recent developments in the conceptual framework, IFRS and government finance statistics. Moreover the Commission hopes that the current discussion of IPSAS governance can be concluded quickly and thereby will not delay or impede the core work of the Board in the coming years.

As you know, a Commission Communication on future European Public Sector Accounting Standards is currently being prepared, wherein IPSAS would be a reference basis for EPSAS. We welcome and value the role that IPSAS Board members continue to play in the discussions of EPSAS.

Taking into account the EPSAS discussions held so far, we would like to highlight some issues that IPSASB may wish to consider when finalising its own work program:

The priority for EPSAS standard-setting is expected to be given to key public sector specific issues where current IPSAS standards are not considered sufficiently developed, in particular for taxes, social benefits.

IPSAS standards are applicable to all sizes of government entities, but that need not necessarily be the case for a future set of EPSAS standards. It is to be expected that the

extent of implementation for smaller entities would be limited, or at least that the more important entities would be prioritised, taking into account their materiality.

It is expected that an interpretation function would be needed for EPSAS, while this does not exist for IPSAS.

Please find in annex our comments on the specific questions raised in the IPSASB Strategic Consultation.

We look forward to continuing our good cooperation with the IPSAS Board.



Manfred Kraff
Deputy Director-General DG Budget,
Accounting Officer of the European Commission



James Whitworth
Acting Director: National accounts,
prices and key indicators, Eurostat

Annex: Comments on specific questions

Copy: R. Aldea Busquets, DG Budget Directorate C
A. Makaronidis, Eurostat

**Annex: Comments on specific questions**

Question 1: Do you agree with the IPSASB's tentative view on its strategic objective for the period from 2015 forward? If not, how should it be revised?

Question 2: Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

Question 3: Do you think that the outputs identified will assist in achieving the outcomes? If not what outputs do you think the IPSASB should focus on?

Question 4: What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

Comment:

The European Commission supports the adoption of accrual accounting as a fundamental step towards improving governments financial reporting and absolutely agrees that credible and transparent financial reporting is positive for the decision-making in the public sector, for accountability towards resource providers and service recipients and for the enhancement of global fiscal stability and sustainability.

Broadly we agree with the IPSASB strategic objective of strengthening public financial management and knowledge globally through increasing the adoption of accruals-based IPSASs and as in line with IPSASB mission of providing high-quality accounting standards and other pronouncements for general purpose financial reports for use by the public sector.

The Commission considers that that IPSASB should focus on standard-setting and outreach as the two key outputs for achieving the IPSASB strategic objectives. As regards feedback mechanisms we would like to encourage the Board to reconsider the idea of implementing a Consultative Advisory Group that would provide feedback on standard setting projects to the Board from a wide range of stakeholders. The feedback to IPSASB exposure drafts and consultation papers in particular from European preparers can currently be described as rather low in particular as compared to the feedback the Commission has received from its EPSAS consultation papers.

Question 5: Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority? Are there other factors you think should be considered?

Comment:

The European Commission considers that the five key factors are appropriate and functional and welcomes in particular the focus on the significance for the public sector and the inclusion of alignment between IPSAS and GFS as an aspect to consider.

Question 6: Do you think the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs?

Question 7: Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation.

We have no particular comments on the cash-based IPSAS.

Question 8: Considering the various factors and constraints, which projects should the IPSASB prioritize and why? Where possible please explain your views on the description and scope of the project.

Comment:

From our reply to the previous consultation on IPSASB work program 2013-2014, we welcome that the discussion of Government Business Enterprises and Emission Trading Schemes were put on the agenda and that IPSASB has recognised the importance of the project on social benefits and re-initiated work on that issue. We highlight again the importance we give to completing the projects on those issues.

One of the main objectives of the EU as supranational organisation is the implementation of the EU budget following the policy objectives set by the European Parliament and the Council. In order to implement those objectives the Commission incurs mainly non-exchange expenses resulting from pre-financing and other advance payments provided to Member States and other beneficiaries. As no IPSAS on non-exchange expenses exists, the Commission has many years ago developed its own accounting rule on non-exchange expenses. After about ten years of experience in the application of this accounting rule the Commission would need to look again at this topic and possibly improve the rule. Since this topic is not only of major importance to the Commission but also to many Member States we would encourage the Board to take this project on its agenda. In this context the IPSAS on non-exchange revenue could be improved as well as indicated in your paper since it is one of the IPSASs with main relevance in our day to day work.

Another important mechanism for the implementation of the budget is the increasing use of trust funds. The EU provides funding to a number of trust funds of the UN and the World Bank and intends to set-up new EU trust funds in the area of humanitarian aid and development. The accounting guidance on trust funds appears to us rather limited and a comparison conducted by Commission staff has shown that trust funds are quite differently accounted for in international organisations and countries. Since trust funds will become an important element of implementing the EU budget we would like to encourage the Board to take this project on its agenda.

As previously stated in the Commission's contributions concerning your consultation on the work program for 2013-2014, we consider as of significant interest the project on sovereign powers and their impact on financial reporting. We also support the development of the project

on differential reporting and the discussion of the issues related to the burden and challenges for smaller entities. In addition, from the list presented of potential projects, we encourage the IPSASB to give priority to the work on leases, not only because of its relevance to public sector entities but also taking into account the alignment with the potentially major changes on the approach to lease accounting by the IASB. Another potentially interesting project would be to review the relevance and content of the standard on segment reporting (IPSAS 18) given experience of its application in some jurisdictions.