

June 24, 2011

Ms. Stephenie Fox
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, ON M5V 3H2

Dear Ms. Fox:

We are pleased to provide you with Nova Scotia's comments regarding the International Public Sector Accounting Standards Board's Exposure Draft and Consultation Papers regarding the conceptual framework for general purpose financial reporting by public sector entities. We hope you find our comments helpful and we would be pleased to discuss any of these issues in greater detail should you wish. We are interested in monitoring and participating in the development of international public sector accounting standards.

The following pages provide Nova Scotia's detailed responses to the specific matters for comment regarding the exposure draft and two consultation papers. The general position of Nova Scotia is that we are not comfortable with the scope IPSASB is building in the conceptual framework. We feel that the framework is too broad and has not fully considered how accounting standards relate to government/ public sector accountability. It is Nova Scotia's view that standard setting relates to accounting principles and these accounting principles need to consider a public sector entity's fiscal/ financial reporting as its reference point. However, it is important that the standard setter does not step into a role of presuming to have authority over how these fiscal/ financial plans are developed or overstep by being too prescriptive with regard to the standard setter's "requirements". Government must maintain the prerogative to budget, and provide interim reports, based on the relevant information for the particular circumstance. This requires great flexibility and does not need to be subject to standardized accounting principles (i.e. sometimes cash projections are appropriate).

Accounting principles are a critical element of fair presentation of financial statements. Logically, the budget should be presented in a manner that is comparable to the financial statement presentation (to complete the accountability cycle) however the responsibility for this policy decision is the government's.

Nova Scotia views the conceptual framework as stepping into the role of sovereign entities and feel it goes too far.

At a high level, we feel the conceptual framework should acknowledge governments' role in managing public money and their accountability to their citizens and residents to demonstrate if the public money has been used as budgeted. The framework should recognize where governments manage risks

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effectively the standards should allow for these strategies to be recognized and disclosed to reflect the substance of the transactions. We feel standard setters are veering away from this position and are attempting to prescribe too much and are starting, in some instances, to overly complicate the financial statements. We would prefer the professional bodies push their membership, including the audit community, to apply standards as they are intended rather than set the standards based largely on what is happening in the private sector when the facts and circumstances are fundamentally different. As professionals we must be held to high standards and emphasize the need for continued application of professional judgment and ethics.

Sincerely,

Byron Rafuse
Associate Deputy Minister & Controller

The Specific Matters for Comment requested in the CP are provided below.

Specific Matter for Comment 1:

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:

- (i) Service potential;*
- (ii) Net cash inflows; and*
- (iii) Unconditional rights to receive resources?*

Nova Scotia’s comments:

The definition should cover service potential and net cash inflows. The context for inclusion should be that an asset should have “one and/ or the other” benefit. It is not necessary for an asset to have both.

Nova Scotia further feels it is not necessary to go the additional step to include “unconditional rights to receive resources”. This opens the door for items that we feel would not be appropriate, largely intangible assets (i.e. capital the future value of all taxation revenue – in the extreme, or capital royalty revenue from a natural resource, renewable or not, that may fluctuate significantly).

(b) What term should be used in the definition of an asset:

- (i) Economic benefits and service potential; or*
- (ii) Economic benefits?*

Nova Scotia’s comments:

In Nova Scotia’s view, it is critically important that service potential be included. The definition should not require economic benefits because that concept implies cash flow. Many assets of a government may not directly lead to economic benefits but will provide future service potential (i.e. construction of roads, hospitals and schools where there may be no direct cash flow from the asset but service potential is safeguarded with the existence of the asset).

Specific Matter for Comment 2

(a) Which approach do you believe should be used to associate an asset with a specific entity:

- (i) Control;*
- (ii) Risks and rewards; or*
- (iii) Access to rights, including the right to restrict or deny others’ access to rights?*

Nova Scotia’s comments:

Nova Scotia views control as the key approach. When looking to determine if control exists, consideration might evaluate risks and rewards of ownership or the ability to access (or restrict others’ access to) the asset but control is the central concept in our view.

(b) Does an entity’s enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others’ access link a resource to a specific entity?

Nova Scotia's comments:

In Nova Scotia's view this would clearly link a resource to a specific entity however we do not feel this would be enough to warrant financial statement recognition.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Nova Scotia's comments:

Nothing significant.

Specific Matter for Comment 3

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Nova Scotia's comments:

In Nova Scotia's view there should be a past event that occurs prior to recognition. There may need to be standard that anticipates certain assets that were not initiated by a past event (i.e. in Canada crown land is an "asset" that is controlled by virtue of being government, it was not purchased, therefore it is recognized at a nominal value in the financial statements) and how these items should be treated.

Specific Matter for Comment 4

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Nova Scotia's comments:

It is our opinion that a power is not an asset. Powers become assets when the underlying authority is exercised by government and the associated activity or transaction occurs triggering the obligation on another party that then owes the tax or a fee to government. As residents earn taxable income the respective government accrues assets, however the right to tax or levy fees in itself is not an asset. The tax structure must be in place and there must be residents earning income in the jurisdiction. Therefore, we feel the power must be exercised and there must be an intermediate event whereby residents/ citizens incur the charges.

Specific Matter for Comment 5

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

Nova Scotia's comments:

Nothing significant.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Nova Scotia's comments:

Nothing significant.

Specific Matter for Comment 6

(a) Should the definition of a liability cover all of the following types of obligations?

(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.

(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).

(iii) Performance obligations.

(iv) Obligations to provide access to or forego future resources.

Nova Scotia's comments:

In Nova Scotia's view the definition of a liability should not cover obligations such as "unconditional obligations to stand ready to insure against loss", "performance obligations" or "obligations to provide access to or forego future resources". It is our position that the first item covers all appropriate liabilities and leaves sufficient room for contingent liabilities where a government has made a specific commitment that could be based on a future event's occurrence.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Nova Scotia's comments:

A specific settlement date is not viewed as being essential however it seems necessary to have a time frame associated with the settlement of a liability. It must be known that there is a claim and that there is a likely settlement in the future. This date does not need to be in the near term (i.e. one year) as many issues may take some time to reach final agreement (i.e. lawsuit settlement, or flood damage) however it must be known that there is a process being followed that does have a logical end date.

Specific Matter for Comment 7

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

Nova Scotia's comments:

In our opinion this should be part of the definition to ensure this is very clear. An individual, entity, or group must be identified as to who will be settled with to fulfill the responsibility underlying the liability.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Nova Scotia's comments:

Yes, Nova Scotia agrees with this. The point at which government no longer has discretion to avoid a future settlement/ payment is a very important characteristic.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining

whether an entity has or has not a realistic alternative to avoid the obligation?

Nova Scotia's comments:

Nova Scotia tentatively supports the third approach whereby enforceable contractual, constructive, and equitable obligations and all other constructive and equitable obligations from which the public sector entity cannot realistically withdraw. Nova Scotia's "tentative" position is based on the interpretation of "equitable" obligations. A "moral" liability is a concept that Nova Scotia really sees little practical application and would consider its removal. Such moral obligations rarely meet the definition of a liability in our experience (and our best estimation as these circumstances do not arise often in our province). Moral obligations seem to be driven by fiscal capacity, and the fiscal position of a jurisdiction will dictate what is possible in most cases, therefore discretion remains with government to assess what is possible before any party is really "owed" anything. Therefore, Nova Scotia is reasonably supportive of including this concept however the guidance/ recognition standards must be clear on its application, and it should only be applied in quite rare circumstances (for sub-national jurisdictions anyway).

Specific Matter for Comment 8

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Nova Scotia's comments:

Nova Scotia feels there should be reference to a "past event" that has occurred.

Specific Matter for Comment 9

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

Nova Scotia's comments:

An appropriate intermediate event is seen as appropriate in considering government obligations because there are constructive/ equitable obligations that can arise that are not of a legally enforceable nature.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

Nova Scotia's comments:

If by enforceability we mean legally enforceable Nova Scotia's position is no, this is not an essential characteristic of a liability. The concept of the point where government no longer has discretion to avoid settlement is essential and this can be quite different than something being "enforceable".

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Nova Scotia's comments:

Yes, we feel that the definition of a liability should include an assumption about the role that sovereign power plays. Typically, we would expect the legislation in effect at the reporting date

would be the appropriate reference point with some allowance for changes: (1) between the statement date and the release date, as well; (2) if there are any changes that have been announced and/ or approved but may not be effective (i.e. may not have received royal assent).

Specific Matter for Comment 10

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

Nova Scotia's comments:

Nothing significant.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Nova Scotia's comments:

Nothing significant.

Specific Matter for Comment 11

(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

Nova Scotia's comments:

Nova Scotia sees merit in determining revenues and expenses by identifying which inflows and outflows are "applicable to" the current period however we do not have a significant issue with an asset and liability-led approach. Both methods, with proper framework and strong definitions, should lead to a similar place. We do feel that changes in the resources of the Province should flow through the statement of operations as a financial measure of that fiscal period.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Nova Scotia's comments:

We feel that the conceptual framework should provide the necessary flexibility to reflect the true substance of a transaction without requiring significant management/ professional time to "structure-in" the terms and conditions to manage the recognition of the arrangement. There are non-exchange transactions that are entered (as a provider or recipient) where the intent is to provide a one-time cash flow (i.e. benefit) that will provide a number of years' support to the recipient. If the language is not precise this can cause issues. Nova Scotia feels such arrangement typically result in liabilities and we expect the framework and accounting principles to support such determinations.

Specific Matter for Comment 12

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Nova Scotia's comments:

Nova Scotia feels these transactions should flow through revenues and expenses as these are indicators of the change in resources attributed to the fiscal year. We are not supportive of accounting for transactions directly through net assets/ net debt.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Nova Scotia's comments:

We do not feel this is necessary.

Specific Matter for Comment 13

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

Nova Scotia's comments:

Nothing significant.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Nova Scotia's comments:

IPSASB needs to ensure they keep focus on the full accountability cycle of a government. Governments manage public money and are accountable to their citizens and residents. Financial statements need to show the fiscal position of the government at a point in time and the result of the operations between reporting dates. Where governments manage risks effectively there must be room for these strategies to be disclosed and for the recognition to be boiled down to the essential results of these strategies. We feel standard setters are veering away from this direction and are introducing items that are not completely necessary in all cases. In summary we would push the standard setters to not set the standards for the lowest common denominator within the professions but hold the professional to high standards and emphasize the need for continued professionalism and strong ethics.

Specific Matter for Comment 14

(a) Do deferrals need to be identified on the statement of financial position in some way?

Nova Scotia's comments:

The definition of assets and liabilities need to provide the ability to be interpreted to permit deferrals when transactions are mutually agreed by the transacting parties to be intended for multiple years of benefits.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:

(i) Defined as separate elements;

(ii) Included as sub-components of assets and liabilities; or

(iii) Included as sub-components of net assets/net liabilities.

Nova Scotia's comments:

Nova Scotia views deferrals to be sub-components of assets and liabilities. We do not support the creation of new elements.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Nova Scotia's comments:

These definitions appear to be appropriate.

Specific Matter for Comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

Nova Scotia's comments:

Nova Scotia views net assets/ net liabilities as a residual amount.

(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

Nova Scotia's comments:

Nova Scotia does not see this as being necessary.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Nova Scotia's comments:

Nothing significant. Nova Scotia would view any "ownership" interest concept as relating to the accumulated surplus/ deficit position of a jurisdiction, not the net asset/ liability position. This concept is not viewed as being particularly relevant in the public sector however when the result would potentially be recognizing certain transactions directly to "equity". This concept would result in the province being better or worse off and in such a case that transaction would be expected to flow through the statement of operations.

Specific Matter for Comment 16

(a) Should transactions with residual/equity interests be defined as separate elements?

Nova Scotia's comments:

We do not feel these need to be defined as separate elements.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Nova Scotia's comments:

We have not given this idea sufficient consideration to comment.

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

Nova Scotia's comments:

Nova Scotia would support the requirement of a neutral judgment whether an element exists at the reporting date based on an assessment of all reasonably available evidence. The principle of conservatism we feel is not appropriate to include in the conceptual framework. We feel the neutral judgment will still factor in likelihood of occurrence with other facts to lead to the best estimation of management.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Nova Scotia's comments:

We do not agree with the threshold approach.

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?

Nova Scotia's comments:

Yes, I think a neutral judgment approach will result in proper derecognition. We would support discussion surrounding derecognition of a liability and how the nature of the liability would impact one's professional assessment of when derecognition would be appropriate. Derecognition of an asset is somewhat different in that management has more control over when they no longer expect to receive benefit from an asset but there is less control over when a liability is no longer expected to be settled.

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Nova Scotia's comments:

Nova Scotia feels the definition of the elements does not need to include the recognition criteria. The two concepts are closely linked so we do not feel one aspect of the framework can be completed in isolation but we do see them as separate issues.

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