

Private/Confidential

Ms Stephenie Fox
Technical Director of the
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West
Toronto Ontario M5V 3H2
CANADA

19 June 2012

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

Dear Ms Fox,

The global organization of Ernst & Young is pleased to comment on the above Consultation Paper (CP).

General comments:

We support and commend the IPSASB's efforts and goal to develop the conceptual framework (the Framework) for general purpose financial reporting (GPFR) by public sector entities. We believe that it is crucial for the development of International Public Sector Accounting Standards (IPSAS) to be based on a consistent and robust framework in the standard-setting process.

Currently, disclosure overload and the risk of information being obscured as a result of the overload is an issue for users of GPFRs. In addition, the costs incurred by preparers to disclose the amount of information required by the financial reporting frameworks (accounting standards and legislative requirements in each jurisdiction) for public sector, as well as private sector entities, has been a major concern. Therefore we support the development of a presentation and disclosure framework that would give preparers a conceptual basis for presenting and providing useful and essential information to users and would assist the IPSASB in providing a conceptual foundation for the presentation and disclosure requirements in accounting standards.

The concept to distinguish between what is 'core' versus 'supporting' information discussed in this CP is a valid starting point. However, we are not sure whether the proposed presentation concepts as currently worded are helpful to preparers as they seem to be a paraphrase of the objectives and qualitative characteristics (QC) of information included in GPFRs. More detailed

discussion regarding presentation concepts is covered in our response to specific matter for comment 3.

Within the *Background to the Conceptual Framework* section of the CP, it is stated that many of the IPSASs currently on issue are based on IFRSs, to the extent that the requirements of those IFRSs are relevant to the public sector, and the strategy of the IPSASB includes maintaining alignment of IPSASs with IFRSs where appropriate for the public sector. However, the IPSASB continues on to discuss that the development of the IPSASB's Conceptual Framework is not an IFRS¹ convergence project, and the purpose of the IPSASB's project is not to interpret the application of the IASB² Framework to the public sector. Nonetheless, we believe that the Frameworks of the IPSASB and the IASB should be largely harmonised, and differences should only exist where it is warranted for the public-sector-specific economic phenomena. We observe that through the IASB's agenda consultation process, one of the priority projects that the IASB will be starting work on is the Conceptual Framework (a joint project with the US FASB), including a presentation and disclosure framework. Therefore, we strongly believe that the IPSASB needs to consider the development of the IASB and FASB joint project on the Framework in developing its own. Furthermore, we encourage the IPSASB and IASB to work closely together to achieve a harmonised Framework, and to leverage each other's work in the development process.

We also encourage the Board to engage with the IIRC³ as this phase of the project has an obvious interconnection with the IIRC's project to develop a framework to help with the development of more comprehensive and comprehensible information about organisations. We would also encourage the Board to consider and leverage some of the work that the IIRC has done in the context of long term performance, resource sustainability and governance, for the other IPSASB projects on long term fiscal sustainability and reporting service performance information. It is also important that the IPSASB works closely with the Global Reporting Initiative (GRI) as GRI develops the next generation of its sustainability guidelines.

Specific matters for comments

Our views on the specific matters for comments on which the IPSASB is seeking answers are set out in the appendix to this letter.

Please contact Thomas Mueller-Marques Berger, Global Leader for International Public Sector Accounting, at +49 711 9881 15844 or Thomas.mueller-marques.berger@de.ey.com should you have any questions on the letter.

¹ International Financial Reporting Standards

² International Accounting Standards Board

³ International Integrated Reporting Committee

Specific Matter for Comment 1 (See paragraphs 2.1 to 2.18)

With respect to the descriptions of —presentation, —display, —disclosure, —core information, and supporting information, and the proposed relationships between these terms:

(a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?

(b) Do you agree that identification of core and supporting information for GPFRs should be made at a standards level rather than as part of the Conceptual Framework?

a) We are unsure whether is necessary for the Board to redefine what is meant by 'presentation'. We believe it is necessary to keep the commonly understood terminology of 'presentation' and 'disclosure' of information in relation to GPFRs. Specifically, the use of the word 'display', which essentially is synonymous with 'present', is potentially confusing to preparers and users. Alternatively, if the Board believes the distinction is imperative, more clarity, support and reasons for this distinction would be helpful for preparers, auditors and users to understand the Board's rationale.

We agree with the approach to develop a framework based on 'core' versus 'supporting' information, but find that the description of 'display of core information' and 'disclosure of supporting information' may not work in certain scenarios. Paragraphs 2.7 and 2.8 states:

"2.7 For the financial statements, display applies to the information shown on the face of a statement. For information included in GPFRs but outside the financial statements, display refers to the ways in which core information is shown...

2.8 Display and disclosure ... do not differ based on the specific presentation techniques used. For financial statements the difference is about information location: on the face of a financial statement or in the notes.'

We question how paragraphs 2.7 and 2.8 would be applied for information such as the disclosure of future lease commitments or contingent liabilities, which would be deemed as 'disclosure of core information', as to us, that is not supporting information (as defined in paragraph 2.11), even though it is not 'displayed' on the face of the financial statements.

It would seem obvious that the current example in paragraph 2.10 to include accruals information would be useful for users analysing a set of cash-based financial statements. We suggest that the Board also include an example that is relevant for a set of financial statements prepared on an accruals basis, to help preparers identify useful supporting information.

Paragraph 2.11 defines 'supporting information' as those that make core information more useful. We disagree with this definition of supporting information, as we don't believe the disclosure of commitments and contingent liabilities for example, would fit this definition of supporting information. Even though such information would provide users a better picture of an entity's future liability position, the liabilities recognised on the face of the financial statement does not take into consideration these information and would not help users understand the core information.

Therefore, we are supportive of the alternative view discussed in paragraphs 2.19-20 that display is not synonymous with core information and disclosure is not synonymous with supporting information. As discussed in paragraph 2.20, we agree that the substance of the information (that is, whether the information is essential) would influence the classification of core or supporting; instead of the form, i.e. display versus disclosure of that information.

- b) We believe that the overarching principles for the identification of core and supporting information for GPFs should be made at the conceptual framework level, with more detailed requirements and guidance provided at the standards level. This would likely involve building on the qualitative characteristic of relevance and the objectives of GPFs. For example, *relevant* information is described in Phase 1 of the conceptual framework project as being information that is capable of making a difference in achieving the objectives of financial reporting. The objectives of financial reporting are described as being to provide information that is *useful* to users for accountability purposes and for decision-making purposes. Thus, both core and supporting information included in GPFs would be *relevant* information that is *useful* to users of GPFs. However, core information would be the most important information, i.e. *highly relevant* information that is *essential* (not simply useful) to users of GPFs. Such a concept could then be used to develop overarching principles for the presentation of key elements in the financial statements such as assets and liabilities, and more specific guidance at the standards level for the various asset classes such as property, plant and equipment and financial instruments.

Specific Matter for Comment 2 (See paragraphs 3.1 to 3.12)

With respect to the IPSASB's approach to presentation of information:

(a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFs including, but not restricted to, financial statements?

(b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?

- a) We agree that a presentation and disclosure framework needs to be developed for the more comprehensive scope of GPFs. As discussed above, it would be helpful for standard-setters if there is a conceptual basis for distinguishing between core information and

supporting information, which would provide a conceptual basis for reducing mandatory disclosure requirements and enhancing the overall usefulness of information presented. For example, standard-setters could assess existing and proposed disclosure requirements for a specific information area covered by a particular accounting standard against this conceptual basis, to firstly determine whether the information is considered to be essential for accountability or decision-making purposes, in which case it would represent core information. For all information that is not considered to be core information, a further assessment could be undertaken to determine whether that information is sufficiently relevant to warrant a mandatory disclosure requirement. In situations where the information is not essential but is sufficiently relevant to warrant mandatory disclosure, the information should be disclosed as supporting information. Such a concept should help not only to distinguish between core and supporting information, but also whether the information should be required at all. By focusing on “what’s really important”, this should help standard-setters to be more selective in setting mandatory disclosure requirements and hence reduce the volume of disclosures.

- b) We agree with the approach taken by the IPSASB to present information as described in paragraph 3.3. However, we question the significance and usefulness of the presentation concepts described in section 6, as the description of these concepts seems to be a paraphrase of the QCs and objective of financial reporting. We believe further research and outreach by the IPSASB needs to be conducted, in order to develop presentation and disclosure concepts that are helpful to preparers and practitioners.

In addition, under paragraph 3.9, when discussing the application of QCs to the presentation concept, information is required to be neutral. We agree that ideally, information should be free from bias. This criterion is applicable for both narrative information, and the judgements and assumptions used to arrive at quantitative information. It would be helpful to preparers to illustrative and emphasize the neutrality and objectivity required when presenting different types of information. Therefore we suggest that the Framework elaborate the discussion of various information types, and develop presentation objectives and concepts for the differing types of information (for example concepts for presentation on the face of financial statements versus service performance information).

Specific Matter for Comment 3 (See paragraphs 4.1 to 4.5)

This CP discusses the importance of developing presentation objectives as part of standard setting.

(a) Do you agree that presentation objectives should be developed?

(b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

- a) We agree that the development of presentation objectives is crucial.
- b) At a minimum, as mentioned earlier, these overarching presentation objectives and principles should be developed in the Framework for GPFRs, and key elements of the GPFS (e.g. assets and liabilities), but there should be more specific requirements and guidance given at the standards level (for example, more specific presentation requirements in Long Term Fiscal Sustainability report and financial instruments).

Specific Matter for Comment 4 (See paragraphs 6.1 to 6.27)

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, indicate how.

Specific Matter for Comment 5 (See paragraphs 6.1 to 6.27)

In addition to the three concepts proposed in Section 6, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

Specific Matter for Comment 6 (See paragraphs 6.12, 6.17, 6.24, and 6.27)

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and
- (b) Any suggestions you have for developing these techniques.

Under section 6, we observe that the proposed presentation concepts here seem to lack a linkage back to the concept of 'core' versus 'supporting' information. It might be more helpful if the discussions of the presentation concepts address what, how and where core and supporting information should be presented. In particular, in order to organize information to make important relationships clear and support comparability, it would be helpful to clarify how supporting information should be disclosed together with core information.

We agree with the principles drawn under the concepts, but we are not sure whether these are truly underlying presentation concepts that apply to both core and supporting information. For example, the discussion in paragraphs 6.13 - 6.16 seems to be an elaboration and reiteration of where information should be located. The presentation techniques suggestion in paragraph 6.17 would seem to provide helpful guidance to preparers and standard-setters, and should be developed.

Under paragraphs 6.6 - 6.10 on the cost and benefit of providing information, the costs of effort required by users to interpret and analyse information seems to be over-emphasized, and there seems to be a lack of discussion and consideration of the benefits of disclosure from the users' perspective.

Other comments:

We are unsure whether the guidance found in Table 1 is non-mandatory and is only for 'illustrative purposes' as mentioned in paragraph 5.4, or it should be considered to be mandatory requirements for preparers. If the intention of the Board is for users to apply the guidance in Table 1, for example, under the QC of comparability, where information is shown, to organize so that like items look alike and different items look different, we find this guidance overly prescriptive, and preparers should be able to use their judgement to decide where the information is shown (subject to the requirements in particular accounting standards), in order to fulfill the comparability criterion.

Yours sincerely,

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Peter Oser

Thomas Müller-Marqués Berger