



Government of Newfoundland and Labrador  
Department of Finance  
Office of the Comptroller General

June 15, 2011

Ms. Stephenie Fox, Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

Dear Ms. Fox:

**Re: IPSASB Consultation Paper (CP)-Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (Phase II)**

I offer the following comments to the Board on the Conceptual Framework Consultation Paper-*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* on behalf of the Provincial Government of Newfoundland and Labrador.

**General Comments**

In regard to this consultation paper, I refer to the general comments provided in response to CF-ED1, regarding the flexibility that must exist in relation to developing an international conceptual framework that reflects jurisdictional attributes and constitutional structures. As well, I reiterate our concerns in relation to the proposals of CF-ED1 which include: the extension of the scope to areas beyond the financial statements, and the proposal relating to the basis in which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity. In particular, our concern in respect of the extension to the scope beyond financial statements continues in relation to this consultation paper. This is evident from the fact that this phase is specifically in relation to financial statements and the reference to the scope extending beyond the financial statements is pervasive throughout the commentary (e.g. paragraph 1.7). As previously noted, the scope of this conceptual framework should be limited to financial statements. In consideration of the specific proposals of this consultation paper, the most significant concerns, as detailed below, are the IPSASB's proposals regarding: the essential characteristics in defining assets and liabilities, measuring financial performance and the proposal of other potential elements.

## Assets

The commentary provided in relation to the IPSASB's proposed definitions for assets is clearly beyond the established practice in Canada based on the concepts and principles of the Public Sector Accounting (PSA) Standards. Specifically, our concern is with the discussion of the substance of an asset (identified in terms of the economic benefits provided by a resource) and the proposals regarding the essential characteristics that must be met at the reporting date.

In developing the substance of an asset, the IPSASB's proposes types of economic benefits (service potential, net cash inflows and unconditional rights to receive resources) which would extend the definition to possibly include items that are not considered appropriate. It is our view that for governments, which represent socio-economic entities, the service potential should be the primary benefit. Reference to economic inflows is not appropriate without service potential since it is at the entity's discretion whether any inflows will be associated with the asset. More significantly, the inclusion of unconditional rights to receive resources as a type of economic benefit could be interpreted broadly in relation to the unique characteristics of government. As a result, there is concern that certain aspects of a government such as its right and ability to tax its citizen's could be considered an asset within the proposed international framework. While paragraph 2.22 of the paper makes reference that the existence of all such rights may be relevant for users, it is our position that the existence of such rights does not reflect relevant information that should be recognized as an element in the statement of financial position.

In a similar manner, in relation to the required characteristics that must exist at the reporting date, it is our position that it is not sufficient to state that an asset is a "present" resource; there must be a past event that occurs. This would reflect support of a "power view" versus a "rights view". It is not government's unique public sector rights to natural resources such as mineral reserves, water, forests which allow them to grant or issue licenses, obtain royalties and even its power to tax that creates an asset. Rather, is it when a government exercises its power by levying a tax or assessing a fee that an asset or resource is created that should be reflected in the financial statements.

Currently, crown lands, forests and water rights are not currently recognized under PSA standards (unless consideration is paid). It is understood that intangibles (e.g. power to tax) and natural resources are not recognized as these items cannot be reasonably and verifiably quantified (absence of appropriate public sector recognition and measurement criteria). While there may be some perceived benefit associated with these unique rights of government, it is still questioned whether recording such items as assets would be useful or even appropriate from a financial reporting perspective. It is considered more appropriate to withhold from recognizing an asset until there is event were such an entity has exercised its power (provide evidence of its right and ability to access benefit) and to not recognize a right or a natural resource as an asset.

## **Liabilities**

As similarly indicated above in relation to assets, the commentary provided in regard to the proposed definitions for liabilities is clearly beyond the established practice in Canada based on the concepts and principles of the Public Sector Accounting (PSA) Standards.

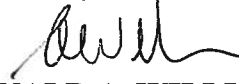
In considering the substance of a liability, the proposals bring in additional concepts of obligation beyond the conventional requirement to transfer cash, other services or to provide goods and services. The proposed concepts include unconditional obligations (including stand-ready obligations to ensure against loss (risk protection); performance obligations; and obligation to provide access to or forego future resources. Given the unique characteristics of government it sometimes leads to problems in accessing the extent of its obligation. In particular, the nature of its relationship with citizens, through perception of its social and moral obligation (stand ready to provide cash and goods and services under law, regulation and even past practice where a sector of the population experiences hardship), proposes difficulty in drawing a distinction between a conditional obligation and a stand-ready unconditional obligations. Introducing such concepts to the definition is not supported as it will result in additional liabilities and vastly expand practices that currently exist under Canadian generally accepted accounting principles. Rather, it is our position, as noted in relation to assets previously, that only specific actions (past transaction or appropriate intermediate event) taken to fulfill an obligation (in absence of a realistic alternative to avoid) can result in an element (in this case a liability) to be recognized in the financial statements. Therefore, it is not sufficient to state that a liability is a “present” obligation. Further, in relation to constructive and equitable obligations, the characteristic of little or no discretion to avoid settlement of the obligation is an essential consideration in determining a liability.

## **Financial Performance and Other Potential Elements**

The proposals in this area are considered significant as it deals with measuring financial performance and proposes changes in relation to the basic financial statement elements. The PSAB conceptual framework reflects the asset and liability-led approach (similar to other conceptual frameworks within Canadian generally accepted accounting principles). While there are circumstances that may arise in the public sector where certain transactions cannot be recognized as a deferral (in the absence of a performance obligation), deferral of revenue occurs if it appropriately reflects substance of the transaction and supports accountability. This is achieved in a manner that generally supports a basis of accounting that reflects the full nature and extent of the financial affairs and resources that support accountability. As such, it is our view that any consideration of recognizing deferred inflows and outflows should be in relation to the existing elements (i.e. separate elements are not required). All financial statements have equal relevance and value in public sector reporting. In a similar manner, it is supported that one approach cannot be at the detriment of the other. The substance of transactions should be reflected in a manner that protects the integrity of the surplus/deficit as well as the statement of financial position to achieve financial accountability.

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,



**RONALD A. WILLIAMS, CA**  
**Comptroller General of Finance**

cc: Terry Paddon, Deputy Minister of Finance