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

Dear Ms Fox

Exposure Draft: Key Characteristics of the Public Sector and Implications for Financial Reporting.

The Australian Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (“the ED”).

Finance has contributed to the Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) comments on the ED, and supports the views contained in the HoTARAC submission. However, Finance believes it is appropriate to submit its own response to add to an issue that is of a particular concern to the Australian Government.

Specifically, Finance strongly supports the view that a key characteristic of public sector entities, in particular, at national level is the significance of government to economic management. As a consequence, the financial reporting implication relates to the consideration of statistical reporting in developing the IPSASB’s Conceptual Framework.

In particular, Finance identifies two major drivers for public sector statistical reporting:

1. At an international level: Inter-government financial management arrangements; and
2. At a national level: The critical role of government in economic management.
Inter-Government Financial Management Arrangements

Many national governments enter into financial arrangements with other governments and international organisations. These include memberships of the International Monetary Fund (IMF), World Bank and economic unions (such as the European Union (EU)) and other trading arrangements. These arrangements are fundamentally different from those applying to the private sector in that they do not necessarily seek to maximise financial advantage to the participating entities, rather goals include the promotion of international and domestic economic development, economic growth and the implementation of sound economic policies. Some of these international organisations may be providers of resources to governments.

In the international sphere, statistical bases of accounting are the accepted standard for measuring and reporting fiscal information of governments. Eurostat in the EU, the IMF and World Bank all require reporting on these bases. Measurements of these variables may be used to determine eligibility for loans; members’ contributions to global institutions and membership of economic unions. Examples include, membership contributions to the UN and IMF being based on economic size and strength, the EU setting a maximum budget deficit of 3% of economic output for member states in the eurozone and the possible imposition of economic performance targets by the IMF as a precondition for loans.

A Critical Role of a Government Economic Management

The size of Governments, their policy role in implementing fiscal and monetary policy and their impact on national economies are differentiating characteristics of the public sector. Even in cases where government does not adopt an actively interventionist economic policy, the scale and complexity of Government operations usually have a far more significant impact on national economies¹ than any single private entity, both through the contribution of government expenditures to national output and the impact on financial markets of government's management of its finances.

Christine Lagarde, managing director of the IMF, recently highlighted the importance of Governments adopting appropriate economic policy settings in maintaining market confidence and promoting strong, sustainable and balanced growth.²

The statistical bases of accounting presentations have evolved to analyse, *inter alia*, the interactions between economic agents, the net investment/savings of government, the measurement of government debt and the contribution of different sectors of the economy to national output. Concepts underlying the statistical bases, such as the separation of valuation adjustment from other transactions, the division of the economy into institutional sectors, and the particular reporting formats used support this type of analysis.

¹ In most countries government expenditure is between 20% and 50% of GDP
Statistical reporting not just for National Governments

Although the significance of statistical reporting is easier to highlight with regards to national governments, it is important to note that statistical reporting is also applied to sub national level, including local governments. This reflects the critical role of public sector financial and economic management and its significant impact on the community.

Financial Reporting Implications

Both of the above characteristics are currently satisfied through financial reporting based on statistical concepts. The implication is that IPSASB will need to determine the relationship between this particular form of financial reporting and the scope of its own activities. Finance notes the Australian accounting standards require harmonisation between statistical and accounting bases or their inclusion in General Purpose Financial Reports (GPFRs).

If you have any queries regarding Finance’s comments, please contact me on +612 6215 3551.

Yours sincerely

[Signature]

Peter Gibson
Assistant Secretary
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30 August 2011