August 31, 2011

Ms. Stephenie Fox
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

Re: Exposure Draft, Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

The IDW appreciates the opportunity to comment on the above mentioned exposure draft. We have made a few general comments below and include our responses to the two questions raised by the IPSASB in an Appendix to this letter.

In our view, the IPSASB has drafted a much needed description of key public sector specifics that will help the wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.

Information about where and how certain public sector specific features and circumstances potentially impact general purpose financial reporting (GPFR) will be very helpful to the IPSASB in its future standard setting activities and will also serve as a point of reference for those preparing financial reports when they face issues not previously addressed by standards, etc. In our opinion, this exposure draft provides some essential information relevant to public sector specifics – although, as we explain in the Appendix to this letter, it is not yet sufficiently detailed – which is highly relevant to financial reporting and could usefully be incorporated into the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.
page 2/6 to the comment letter to the IPSASB dated August 31, 2011

We hope our comments will be useful to the IPSASB in determining the final content and position of this paper. We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Norbert Breker
Technical Director
Accounting and Auditing

Gillian Waldbauer
Technical Manager
International Affairs
APPENDIX

Specific Matter for Comment 1

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

In order to identify potential implications for financial reporting certain parts of the exposure draft would benefit from a fuller discussion, as there are additional aspects of certain areas that may also have significant implications for financial reporting.

Section 2 provides an example to illustrate this point. Paragraph 2.4 states that taxation is “a legally mandated involuntary transaction between individuals or business entities and the government”. Subsequent paragraphs discuss only which type of public sector entities may have the power to tax and which do not and are therefore reliant on intergovernmental transfers, etc. In our view, this information is too general to give a balanced picture of the implications for financial reporting, particularly as it could be read as implying that there is always an unlimited power to tax. In addition, paragraph 6.5 subsequently refers to the “very broad tax raising powers of national governments” in the context of going concern. In our view, mention of the entity’s ability to collect tax and factors that have an impact on that ability would be useful in a paper of this nature. For example, the economy may prove to be less robust or alternatively perform better than originally anticipated in forecasting taxation receipts; systems for tax collection may be inefficient or be influenced by cultural issues such as corruption, light sentencing for evasion, etc; tax regimes are often a significant factor considered by business enterprises or high earning individuals in making residence decisions. Such factors may mean that governments experience quite significant differences between their forecast tax receipts and actual tax collected. It may not always be feasible for governments to adopt compensatory means such as curtailing expenditure, adjusting taxation rates or introducing additional taxes to counteract such differences.

Similarly, the discussion of non-exchange transactions in paragraphs 2.8 and 2.9 is too generalized to allow readers to appreciate the full potential impact on
financial reporting in the public sector. In particular, some features of certain
transactions in the private sector may appear to have non-exchange elements
similar to those found in the public sector (e.g., incentives, to which – in the
private sector – IFRS revenue recognition provisions apply). Just as public
sector entities may decide whether to fully fund particular schemes and not
others, there may be decisions in the private sector to use loss leaders or
subsidized prices. It would be helpful for the exposure draft to point out where
the differences are in this respect and what factors might need to be considered
in determining whether similar accounting treatment may or may not be
appropriate in the public sector.

Sections 6.5 and 6.6 refer to the going concern principle as having been
generally of less significance in the public sector. Without foundation, this
statement is overly simplistic. Given recent developments in certain jurisdictions
particularly within Europe, a fuller discussion pertaining to an appropriate
application of the going concern assumption in the public sector context is called
for. For example, a discussion as to in what type of circumstances might it be
appropriate for a public sector entity to set aside the going concern assumption
would be helpful.

In the context of GPFR, and particularly general purpose financial statements
(GPFS), the intended purpose and relevance of section 9 of this exposure draft
is unclear, and the implications for financial reporting mentioned in the title of
the exposure draft are unexplained. As currently drafted, this section seems
only to inform readers that there are differences between IPSAS and statistical
bases for reporting financial information and notes that despite the difference in
their respective objectives considerable convergence has been achieved,
whereas full convergence may not be feasible. In particular, if this section is to
be useful in future standard setting, the last sentence needs to be explained
further, as simply stating that developing definitions of elements is an area in
which the requirements of statistical accounting need to be considered is not
enlightening. We suggest this section be enhanced to explain why statistical
bases for reporting are relevant in the public sector and why and how this
impacts GPFR and GPFS.

In our letter dated June 10, 2011 concerning Phase 3 of the Conceptual
Framework Project, we questioned why fair value had not been given more
attention as a measurement basis in the discussion in this phase of the project,
and suggested that a discussion of the merits and disadvantages of fair value
would seem to be appropriate in this phase of the Framework. Such a
discussion would be particularly useful if it were to identify public sector
specifics to highlight where and why it would and would not likely be relevant for the IPSASB to consider fair value as a measurement basis.

Specific Matter for Comment 2

Do you agree that this document should be included as part of the IPSASB’s literature? If you agree, where do you think the material in this document should be located:

(a) As part of the Conceptual Framework;

(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or

(c) Elsewhere with some other status – please specify?

Subject to our comments above, we agree that the paper provides useful background information on the key characteristics of the public sector as well as potential implications of those key characteristics for financial reporting. We believe it would be helpful if parts of the material were integrated into specific sections of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

For example, paragraph 2.3 of the exposure draft puts a case for expanding financial reporting in the public sector beyond GPFSs. This sort of material would likely be useful in Phases 1 and 4 of the Conceptual Framework, to the extent that it could explain the circumstances in which sufficient differences between the private and public sectors exist that may necessitate concepts being applied that differ from those applicable to the private sector, or emphasize aspects that may otherwise influence the application of shared concepts in a public sector environment. In addition, the sections of the Conceptual Framework dealing with the recognition of elements in Phase 2 as well as measurement bases in Phase 3 could, for example, be enhanced by including material covering various relevant public sector specific aspects e.g., from paragraph 5.2 concerning the phenomena related to “national or local heritage”, also the discussion of programs with long-term horizons in paragraph 6.3. We suggest the IPSASB consider each aspect in its own merit in determining which such material could usefully be included within the final version of the Conceptual Framework.

On the assumption that the IPSASB will follow our suggestion to integrate some of the material into the Conceptual Framework, the (remaining information in the) paper could be included as a separate section of the Handbook of
International Public Sector Accounting Pronouncements, covering general aspects to assist a wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.