The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Dear Sirs,

Consultation Paper on IPSASB work programs 2013-2014

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on its Consultation Paper regarding IPSASB work program 2013-2014 (CP). We are wholly supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and improve the transparency and accountability of government reporting.
IPSASBs current projects include:

- *Public Sector Conceptual Framework*
- *Reporting on the Long-Term Sustainability of Public Finances*
- *Financial Statement Discussion and Analysis*
- *Reporting Service Performance*
- *Public Sector Combinations*
- *IPSASs and Government Finance Statistics Reporting Guidelines*
- *Revision of IPSASs 6-8*
- *First Time Adoption of Accrual IPSASs*
- *Government Business Enterprises*
- *Public Sector Financial Instruments*
- *Improvements*
- *Amendments to IPSASs 28-30*
- *Review of Cash Basis IPSAS*

IPSASBs potential projects that the IPSASB has developed based on its deliberations include:

- *Borrowing Costs* (Update of IPSAS 5 - underlying standard IAS 23)
- *Emissions Trading Schemes*
- *Extractive Industries* (IFRS 6 interim standard but no comparable IPSAS)
- *Heritage Assets* (Public sector specific)
- *Improvements to IPSAS 23* – Non-Exchange Revenues
- *Insurance Contracts* (IFRS 4 interim standard but no comparable IPSAS)
- *Leases*
- *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5 but no comparable IPSAS)
- *Presentation of Financial Statements* (Update of IPSAS 1 - underlying standard IAS 1)
- *Related Party Transactions* (Update of IPSAS 20*,* underlying standard IAS 24)
- *Revenue Recognition*
- *Segment Reporting* (Update of IPSAS 18, underlying standard IAS 14, superseded by IFRS 8)
- *Small and Medium Enterprises* (SMEs)
- *Social Benefits*
- *Sovereign Powers and their Impact on Financial Reporting*

General Comment

The IPASB has a significant number of current projects ongoing and we are highly supportive in seeing the IPSASB bring those projects to a swift conclusion so that the new accounting standards may be implemented by Public Sector Entities (PSEs) quickly, thus enhancing PSE and whole of government financial statement reporting.

Our comments on the specific questions asked by the IPSASB are as follows:

1. **Considering the additional potential projects identified above and described in Appendix C are there any other projects that you think need to be added to the list of potential projects?**

a) Sovereign wealth funds and other entities held for investment purposes

One of the IASB's current projects concerns the accounting by investment funds which proposes fair value or equity accounting rather than the full consolidation of entities that are controlled by the investment fund. The rationale being that the investments are held for their dividends and capital growth. There are considerable parallels in this thinking with sovereign wealth funds and other entities held for investment purposes. We acknowledge that IPSAS 22 *'Disclosure of financial information about the General Government Sector'* adopts this form of accounting. We suggest consideration is given to whether it should also be applied in the whole of government consolidated financial statements. We note the divisions in the responses to the IASB's project concerning grandfathering of the investment fund accounting in the consolidated accounts of the parent of an investment fund and we observe the view of respondents who consider there is little point in having such a standard if the accounting is not grandfathered. Government spends to provide social services and invests to provide future resources for the country, this is the information that users of Government financial statements want to understand. Consolidating entities that are controlled by government that are held for investment purposes potentially distorts the financial statements and makes them less transparent, rather than more.

b) Determining when a government is acting in its capacity as government from when a government is acting in its capacity as owner.

GBEs are required to apply IFRSs not IPSASs. IFRSs include IAS 20 *"Accounting for Government Grants and Disclosure of Government Assistance."* IAS 20 has not been updated for some time and is not likely to be in the near future. However, IAS 20 provides not only contradictory accounting treatments within itself, it is also contradictory of other IFRSs notably IAS 1. In particular, the accounting treatment of funds and resources provided by governments in their capacity as government rather than in their capacity as shareholder is not well defined. Whilst rewriting IAS 20 is not within the remit of the IPSASB, determining when the government is acting as government rather than acting as the shareholder of a GBE, or as the shareholder of a PSE that is not a GBE but does provide below market price goods and/or services to the public, does seem to fall within the IPSASBs remit.

c) Accounting for subsidized Rate Regulated Activities.

We note that the IASB has returned its Rate Regulated Activities project to its agenda, perhaps at the behest of its American and North American participants. However given that the European rate regulated entities have been applying IFRS for some time without the need for such a standard it seems likely that the IASB's project is going to take some time to conclude. The IASB has previously stated that it does not wish to develop industry based standards however IAS 26, 39, IFRS 4 and 6 arguably contradict this view. Subsidized rate regulated activities are however different from subsidized market based activities and subsidized social service based activities. Generally they are monopolies, hence the need for a regulator to assess their performance and the prices they charge for their goods and services. Those good and services are subsidized by government because there is an element of social provision in making those goods and services available to all the public. Guidance from the IPSASB in this area would be useful.

2. **Which projects do you think the IPSASB should prioritize for 2013-2014? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.**

a) Related party transactions (Update of IPSAS 20*,* underlying standard IAS 24). In countries where government individuals are involved in the governance of entities and government interaction with government and non-government entities is pervasive the identification and reporting of government related party transactions are matters of continuous discussion amongst the accounting profession. IPSAS 20 currently contains some useful exemptions for government related entities however we think that the exemptions could be broader and wider. When pervasive interaction with government is well known we consider that disclosure of government related party transactions should be limited only to those that are of such significance that non-disclosure of the transactions distorts the 'true and fair view' of the financial statements.

b) **Borrowing Costs** (Update of IPSAS 5 - underlying standard IAS 23). All governments borrow to finance investment in assets and some governments also borrow to cover operating expenditure deficits. Clearly borrowing to finance operating expenditure deficits should be expensed, however borrowing costs incurred in financing investment in assets is simply another cost of that asset. The current accounting standard and the treatment proposed in the exposure draft can potentially be circumvented by arranging contracts such that the finance cost is not deemed to fall on the government. In principle we see no reason for a distinction between cash generating and non cash generating assets for capitalizing or not capitalizing interest costs. Whether an asset is used for producing economic returns, or for social provision we do not consider a reason for capitalizing different amounts of cost.

c) **Leases.** In our experience government entities have capital budgets and operating budgets. Funding for financed leased assets is from capital budgets and funding for operating leased assets is from operating leased budgets. The IASB's current leasing standard is widely acknowledged to be open to interpretation. The Chair of the IASB's quote that one day he would like to fly in an airplane that is actually on an airplane company's balance sheet is well known. GBEs use IFRSs and therefore will apply the new leasing standard (when it appears) therefore we agree that the IPSAS should keep pace with the introduction of a replacement for the current leasing standard.

3. Please provide any further comments you have on the IPSASB's Work Program for 2013-2014.

We have no further comment.

Yours faithfully

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