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**Subject** : Response to IPSASB proposed Strategy & Work Plan 2019-2023.

I am writing you on behalf of the French Directorate of Public Finances (hereinafter mentioned as DGFIP) to express our views on the mentioned above Consultation.

Head of Central Government Accounting Department

François Tanguy





Paris, July 3, 2018

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**Re: IPSASB Proposed Strategy and Work Plan 2019-2023**

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the IPSASB public consultation *Proposed Strategy and Work Plan 2019-2023* published in January 2018.

We agree with the IPSASB's overall objective from 2019 onwards of strengthening Public Finance Management globally. We also gladly observe that the two main areas of activity have a public interest focus.

However, because we believe that the IPSASB's activities need to remain focused on the public sector specificities, yet to be fully identified and addressed from an accounting perspective, we have reservations as to how to achieve the proposed objective. Remaining focused on the development of high-quality financial reporting standards is to us critical in times of tight resources.

In a context of tight resources, we would recommend that the suite of standards should be completed with guidance on military assets and a global standard on all public sector intangible assets before promoting the adoption of IPSASs: constituents are more likely to adopt IPSASs if the suite of standards is stable and all gaps in standards are addressed. Implementation of a new

accounting framework is a huge project and constituents need to be sure that no significant evolutions of the standards will happen just after the adoption.

Additionally, we are of the view that raising awareness of IPSAS and the benefits of accrual adoption could also be well achieved through addressing practical narrow issues, implementation issues and through issuing guidance on a timely basis using a specifically tailored due process.

Responses to the detailed questions set out in the Consultation are presented in the appendix.

Yours sincerely,

Michel Prada

## APPENDIX

### *Specific Matter for Comment 1 (SMC 1)*

*Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.*

The CNoCP broadly agrees with the IPSASB's proposed strategic objective for 2019 onwards. We acknowledge that it fits the description in the IPSASB's terms of reference revised in 2012<sup>1</sup>. However, we develop below reservations we have on the means to achieve the proposed objective.

The CNoCP strongly believes that the IPSASB should deal in priority with issues directly related to general purpose financial statements (GPFSS). Therefore, we would like to underline the necessity to focus on those issues that are of prominent importance for public sector accounting standard-setting, more specifically in a context of tight resources. We strongly believe that, at present, should other publications be developed the credibility of the IPSASB would be at stake.

In July 2014, in our response to the IPSASB's first ever consultation on Strategy, we alerted the Board to the effects of taking on its agenda such projects as 'differential reporting'. This is because 'differential reporting' is resource consuming and should remain the responsibility of each jurisdiction. Unfortunately, we note that the present consultation shows that this project was retained as a priority project.

In addition, we are concerned that the IPSASB's strategic objective includes promoting IPSASs around the world in a context of tight resources.

Finally, we would like to encourage the Board to complete the suite of standards to reach a stable platform; we believe that it is a necessary step to facilitate the promotion of IPSAS adoption across the world.

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<sup>1</sup> Terms of reference paragraph 2: The IPSASB's objective is to serve the public interest by developing high-quality accounting standards and other publications.

### ***Specific Matter for Comment 2 (SMC 2)***

*Do you agree with the IPSASB's five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.*

We fully agree with prioritising setting standards on public sector specific issues and with the fact that the Conceptual Framework should be the basis for addressing those issues. We firmly believe that public sector specificities should be the primary focus of public sector standard-setting. Therefore, we fully support theme A *Setting standards on public sector specific issues*.

We note that convergence with GFSs wherever possible is an integral part of the setting standards process. We also note that financial information in the public sector revolves around at least three accounting systems: the system of national accounts to provide macroeconomic information, the budgeting system to ensure that public expenditure is appropriately controlled in support of the Government's fiscal framework and accrual accounting to provide microeconomic financial information for decision-making purposes at reporting entity level. We observe that communicating on the articulation between the various systems is critical for users of financial information to get a full picture of a jurisdiction's public financial management. We believe that this would help users understanding the extent of the financial information that accrual accounting would add to the other two sets of accounts. In other words, this would help asserting the usefulness of accrual public sector accounting.

In the same spirit as the above comments, theme B *Maintaining IFRS convergence* is process oriented. The international set of standards for the private sector is of importance for those transactions in the public sector that are similar to those in the private sector. It is also a good basis for analysing transactions that are identified as specific to the public sector.

However, IFRS convergence should never be detrimental to the cost/benefit ratio constraint set out in the Conceptual Framework. Decision to maintain convergence should also take into account thorough feedback from implementation of newly issued IFRSs in the private sector and a cost-benefit analysis of the effect on public sector. The costs and benefits in the public sector are not necessarily the same as those in the private sector even when transactions are similar.

In the same line of thoughts as above, with a view to assessing the relevance of the urgency criterion, we would question convergence with new IFRSs that have not yet been fully implemented in the private sector. Currently, convergence projects with IFRS 16 *Leases* and

IFRS 15 *Revenue from Contracts with Customers* are on the Board's agenda, even though we have little feedback on implementation issues in the private sector.

We agree that meeting users' financial reporting needs is of the utmost importance in the public sector, especially as financial reporting information has to find its own way between macroeconomic and budget related information. We therefore agree that the Board should continue to monitor users' needs under theme C *Developing guidance to meet users' broader financial reporting needs*. As far as providing guidance is needed, we firmly believe that users' needs relate primarily to the implementation of IPSASs. We also think that any information beyond information within the financial statements should remain in the form of recommendation and should not be made authoritative.

### ***Specific Matter for Comment 3 (SMC 3)***

*Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.*

With respect to the criteria for project prioritisation, we gladly note improvements compared to the key factors in the IPSASB's first ever consultation on Strategy for 2015-2019. The new proposed criteria should by far better allow for informed decisions on the projects to be initiated by the IPSASB to serve the public interest.

However, we would have welcomed a better articulation of the new public sector specific projects prioritised for inclusion in the 2019-2023 Work Plan with the proposed criteria for project prioritisation. For instance, we would have further developed how the Differential Reporting project meets the "Urgency" and above all the "Technical and Resource Considerations" criteria. Indeed, developing and maintaining a lighter suite of standards for smaller entities, especially where convergence with the main set of standards is concerned, is highly resource consuming. Moreover, the description of the project sets out a critical limit: "[...] *even small and medium sized entities need to be accountable to constituents for their use of public funds*". Eventually, we note that there is no reference to appendix B *Analysis of Potential Projects Against Selection Criteria* in the main document *Proposed Strategy and Work Plan 2019-2023*. Such reference would be extremely helpful to fully grasp the Board's projects prioritisation exercise.

#### ***Specific Matter for Comment 4 (SMC 4)***

*Do you agree with the projects that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme A: Setting standards on public sector specific issues (Natural Resources, Discount Rates, Differential Reporting and Conceptual Framework limited-scope Review)? If not please explain your reasoning, and any proposed alternatives.*

We observe that the different projects listed as priority projects have very different impacts in terms of resource consumption. Given the resources of the IPSASB, it would seem logical to communicate further on resource considerations for each of those projects to help decide if they should or not be taken on to the Board’s agenda.

We agree that the project “*Natural Resources*” should be prioritised. However, this project relates to the “*Intangible Assets – Public Sector Specific*” and the “*Sovereign Powers and their Impact on Financial Reporting*” projects listed as “*Considered but not Prioritised for the IPSASB Work Plan 2019-2023*” in appendix A in that those projects all address public domain access issues. It could therefore be argued that those two projects should be considered together with the “*Natural Resources*” project.

We find that those three projects well illustrate public sector specificities. For instance, at a time when new open data environments emerge, addressing the accounting consequences of those new environments would prove very useful. Also, value creation from the use of assets from the public domain remains an insufficiently explored area in terms of effects on the Public Financial management and on reporting entities’ financial statements. We believe that conducting research in those areas would be fundamental for the future development of public sector accounting. Looking at the work plan with the above perspective would be far more enticing and challenging and would certainly allow more buy-in from constituents as to the adoption of IPSASs.

Conversely, the “*Discount Rates*” project sounds more like implementation issue and a *Public Sector Measurement* project is currently being discussed by the Board. Because it is closely linked to an existing project, it may not stand for a standalone project.

Additionally, the review (“*limited-scope review*”) of the Conceptual Framework should be considered a theme B *Maintaining IFRS convergence* project, even though a critical part of that project would be to ensure internal consistency between the Conceptual Framework and the whole set of IPSASs.

***Specific Matter for Comment 5 (SMC 5)***

*Do you agree with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme B: Maintaining IFRS convergence (IPSAS 18, Segment Reporting)? If not please explain your reasoning, and any proposed alternatives.*

From outreach surveys to our constituents, we draw that a review of IPSAS 18, *Segment Reporting* for the purpose of convergence does not receive a wide support.

Our constituents would rather favor convergence with IFRS 6 *Exploration for and Evaluation of Mineral Resources*, especially with regards to the project on *Natural Resources* that is prioritised under theme A.

***Specific Matter for Comment 6 (SMC 6)***

*Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a currently proposed project? If you believe that any Appendix A projects should be added, please explain your views on why the project should be included, which proposed project should not then be started and why.*

From our constituents’ perspective, to complete the suite of standards on long term assets, the projects “*Military Assets*” and “*Intangible Assets – Public Sector Specific*” should be listed under theme A.

Lastly, the project “*Accounting for Tax Expenditures*” is also important and should be prioritised under theme A.

***Specific Matter for Comment 7 (SMC 7)***

*The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.*

- *Do you agree with the IPSASB’s proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details)?*
- *If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.*



We believe that the Forum of Public Sector Standard Setters is a very useful means of getting valuable input. What is critical for that Forum to gain weight in the accounting standard setting debate is to expand the network of national standard setters for the public sector.

In any case, we are always available and happy to engage with the IPSAS *Board* through meetings and conference calls.