

May 31, 2012

Ms. Stephenie Fox
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Board
International Federation of Accountants
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Dear Ms Fox,

**Re: Consultation Paper: Conceptual Framework for General Purpose
Financial Reporting by Public Sector Entities: Presentation in General
Purpose Financial Reports**

The IDW appreciates the opportunity to provide the following comments on the
above-mentioned Consultation Paper:

Consistency with Conceptual Framework Applicable to the Private Sector

As stated in our letter dated June 15, 2011 on the Exposure Draft of Phase I of
the IPSASB's Conceptual Framework project, the IDW recognizes that there is a
distinct need for a Conceptual Framework for general purpose financial
reporting by the public sector. We continue to believe that, as stated in our letter
to you dated March 31, 2009, the discussion is of fundamental importance for
the future development of International Public Sector Accounting Standards. A
Conceptual Framework dealing with presentation issues will also undoubtedly
be needed as the Board moves into other areas of financial reporting within the
scope of GPFRs.

We have previously stated our support for the IPSASB in now concentrating
significant resources on bringing this important project forward, but expressed
our concern as to whether the IPSASB's timetable may be overly optimistic, as it
would essentially mean that the IPSASB would complete the project

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
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independently – and thus likely ahead – of the IASB's Conceptual Framework Project.

Indeed, in respect of this particular phase of the project we do not believe there is any real technical justification for there to be conceptual differences between the public and private sector. We note from paragraph 2.1, that the IPSASB intends to monitor other projects in this area, including that of the IASB, but believes that it can progress this project without waiting for these other projects to be finalized. Should the IPSASB retain this position, we would nevertheless urge the Board to confer with the IASB on the issues dealt with in this phase of the project prior to finalizing the project as a whole, with a view to ensuring differences can be eliminated to the full extent possible. In this context we would also like to caution against the use of different terminology unless there are pressing reasons, since this could result in a degree of irritation.

Proposed descriptions and relationships of “presentation”, “display”, “disclosure”, “core information”, and “supporting information” (SMC 1a)

The Consultation Paper proposes that financial information can be categorized as constituting either core information or supporting information and thus be allocated for display or disclosure, respectively.

As we explain in more detail below, we believe the concept of categorizing financial information as either core or supporting to determine its placing within a GPFR is an aspect that warrants a more detailed discussion at a conceptual level. We therefore have some sympathy with the alternative view outlined in paragraphs 2.19 and 2.20, since we do not believe that the issue is as clear cut as the Consultation Paper appears to imply.

Certainly in Germany, historically, it was the legislator who determined what information should be shown on the face of a statement and what should be included in accompanying notes. On the one hand, it could be argued that all information was regarded as core information, since otherwise its inclusion in financial statements would not have been mandated. On the other hand, it could be argued, as does the Consultation Paper, that information relegated to accompanying notes supports the information in a statement and is thus not “core” but “supporting” in nature. In our view, the fact that most financial reporting frameworks that require a true and fair view to be shown – including those established by law – require this of financial statements taken as a whole, rather than of individual statements without accompanying notes, points more to the former view.

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Whilst we broadly agree with the principle noted in paragraph 2.9 that when information is core information its disclosure in accompanying notes/ appendices or other supporting information cannot be a substitute for its display on the face of a statement or report, we do not believe that this will always prove feasible. In this context, the contentions stated in paragraph 2.9 of the Paper: “For information to achieve all the QCs, all core information should be displayed” and paragraph 2.6: “Core information highlights key messages related to an information area.” may also be problematical, since, it may not necessarily follow that key messages related to an information area can be portrayed *solely* by core information that is displayed on the face of a statement or report.

Taking the example mentioned in paragraph 2.12 of the Consultation Paper, contingent liabilities are either by their nature not capable of reliable measurement, or it is not probable that an outflow of resources will be required to settle the obligation, but they nevertheless have the potential to impact the overall financial position in an undeterminable way. It is currently generally accepted that it would be inappropriate to recognize such items on the face of a statement, since particular qualitative characteristics cannot be sufficiently met, but at the same time, it is also generally accepted that their omission could result in a misleading picture. In this example, it is therefore not merely a matter of aiding an understanding of information already provided on the face of the statement as would be the case in respect of a mere breakdown of an element that has been recognized; rather as all the liabilities that have been recognized were capable of reliable measurement, contingencies represent additional information (not capable of reliable measurement, but which if they were, would also have been recognized) not presented thereon, and could thus be considered to be core rather than supporting in nature.

The presentation issue that arises in regard to such information is what mechanism could be applied to direct readers’ attention sufficiently to such matters i.e., how to prevent them being “buried” within copious accompanying material. In the absence of such a mechanism, there is a danger that readers of financial statements may underestimate the significance of certain information essential to their economic decision making activities or, in the worst case, even “oversee” such information.

At present, the requirement for an auditor to include an Emphasis of Matters paragraph in the auditor’s report (ISA 706.06) provides a mechanism in practice, but whether, and, if so, how a presentation mechanism could be facilitated

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within the GPFS is an issue that we believe needs to be discussed more intensively at a conceptual level.

Interrelation of Parts II and IV of the IPSASB Conceptual Framework (SMC 1b)

We agree with the IPSASB (paragraph 3.2) that final identification and delineation of information to be presented (i.e., subject matter to be reported) is not a conceptual issue, but one that needs to be determined at the standard setting level.

In our view, the identification of what the Consultation Paper terms presentation objectives is neither a purely conceptual nor a purely standard setting task. Many Boards consult with the public at large and with their constituents as to their future Agenda, in order to gain feedback on proposed projects as well as new ideas as to how to meet user needs. We therefore support the new initiative to be taken by the IPSASB in consulting publically on its Agenda to gain feedback about users' needs and views.

Development of presentation concepts for GPFRs or for GPFSs (SMC 2)

As the IPSASB has already commenced several projects that extend beyond "traditional" GPFSs, we agree that there is a need for the Conceptual Framework to deal with presentation in broader ranging GPFRs.

We appreciate the fact that the IPSASB decided some years ago that Parts I and IV of the Conceptual Framework Project would cover GPFRs whilst Parts II and III would be restricted to GPFSs. However, our involvement in the project so far has shown that part IV is less straightforward than the other three, since there is little conceptual work in this area upon which the IPSASB can draw. Given this, we suggest the IPSASB consider whether it might be better to approach this part of its project in two steps. The first step could concentrate on GPFSs, with which there is the most familiarity, and then in a second step test and adapt, as necessary, the concepts for application in GPFRs.

Illustrative examples of the application of principles to GPFS and GPFRs could be useful in some areas, as this may serve to test whether the concepts are sufficiently flexible on the one hand and sufficiently detailed as to be helpful to standard setters and preparers on the other.

Presentation Objectives – Presentation Levels

We believe that the Conceptual Framework should not concentrate solely on the presentation aspects of core and supporting information.

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For example, how a report is entitled is also part of its presentation. In this context we note that paragraph 2.6 uses the term “information area”, and footnote 4 suggests a few examples of information areas, including service performance information and financial statements as separate information areas, but that information areas are not considered presentation issues otherwise within the Consultation Paper.

At the other end of the scale, paragraph 1.9 discusses briefly a possible impact of internet tools on presentation, as they allow readers to drill down from a standardized summary presentation of information into more detailed underlying data.

In our view, aspects such as the above-mentioned also need to be covered in the Conceptual Framework.

Proposed Presentation Concepts (SMC 5)

In our opinion, user needs are directly affected by the frequency of reporting and whether reported information is current. Thus we believe that both how current information that is reported ought to be as well as the frequency of its issuance also need to be addressed more fully at a conceptual level. We realize that proposed Concept 1 subsumes this aspect in regard to the question of what information needs to be shown, in referring to the need for information to be sufficiently timely, but believe that it would be easier to understand if the question “when” were considered in decisions for presentation of information separately from the consideration of “what”. Therefore, the issue of when information is presented is sufficiently important as to merit a separate presentation concept.

We hope our comments will be useful to the IPSASB in drafting this phase of the framework. We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Gillian Waldbauer
Technical Manager