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January 31, 2013

Ms. Stephanie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its November 2012 Exposure Draft 2 - *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (ED). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The ED proposes definitions of elements used in general purpose financial statements of governments and other public sector entities. The elements are specified in paragraph 1.4 of the ED as Assets, Liabilities, Revenues, Expenses, Deferred Inflows, Deferred Outflows, Ownership Contributions and Ownership Distributions. The FMSB has reviewed the ED as well as the additional sections entitled Basis for Conclusions and Alternative Views. The FMSB agrees with most of the definitions proposed by the IPSASB's for the elements specified in paragraph 1.4 of the ED. However we have some concerns regarding part of the proposed definition for liabilities and we do not agree that Ownership Contributions and Ownership Distributions should be defined as elements. Our concerns are expressed in our answers to the Specific Matters for Comment that follows.

#### **Specific Matter for Comment 1**

Do you agree with the definition of an asset? If not, how would you modify it?

**FMSB Response** – Paragraph 2.1 of the ED defines an asset as "... a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls and which arises from a past event." We find that the IPSASB's definition of an asset aligns very closely with the definitions used for assets by the Government Accounting Standards Board (GASB) and the Federal Accounting Standards



Advisory Board (FASAB). In paragraph 8 of Concept Statement 4, GASB defines an asset as, “...resources with present service capacity that the government presently controls.” FASAB, in Statement of Federal Financial Accounting Concepts 5 defines an asset as, “...a resource that embodies economic benefits or services that the federal government controls.” The IPSASB’s definition incorporates the key concepts that an asset is a resource that has a service potential and is controlled by the government. Therefore, we agree with the definition of an asset as proposed by IPSASB.

## **Specific Matter for Comment 2**

(a) Do you agree with the definition of a liability? If not, how would you modify it?

**FMSB Response** – The FMSB is concerned about the IPSASB’s definition of a liability as provided in Paragraph 3.1 of the ED. Paragraph 3.1 defines a liability as, “... a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.” We believe the phrase “... little or no realistic alternative...” would raise more questions than it would answer.

Governments, especially national governments, have sovereign powers that provide them with a whole host of alternatives, all of which are within the realistic range. We do note and agree with the second sentence in paragraph 3.9 stating that sovereign power should not be used as a rationale for non-recognition; however, we believe that the definition would be effective without this phrase. For example, the definition could be as follows: “a liability is a present obligation that arises from a past event requiring a government entity to deliver services or economic benefits to another entity at a determinable date, when a specific event occurs, or on demand.” The key liability concept is that a present obligation exists based on a past transaction or event, not whether the government has a “realistic alternative.” The government may well have a “realistic alternative” and yet have a liability based on other imperatives.

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

**FMSB Response** – Paragraph 3.2 defines a “present obligation” as a legal or non-legal binding requirement which an entity has little or no realistic alternative to avoid that requires an entity to deliver services or economic benefits to another party.”

Generally, the emphasis in the liability discussion on legal vs. “non-legal binding” obligations is troublesome. The pervasive emphasis on legal enforceability renders the process overly judicial in nature. When deciding whether an obligation meets the definition of a liability, legal enforceability is, of course, a consideration. But the concept statement focuses on legal process rather than on whether a present obligation exists based on a law or an agreement or understanding between the government and another entity.

Moreover, we are concerned with some of the guidance and terminology used by IPSASB paragraphs 3.10 through 3.12. These paragraphs discuss the factors to be considered when deciding if an obligation that is not legally enforceable warrants recognition as a liability. We believe that this guidance presents conceptual issues. Paragraph 3.10 states that an obligation giving rise to a liability has the following attributes: (a) a pattern of past practice (b) that creates “a valid expectation” ... (c) that the entity has little or no realistic alternative to avoid .... Who would decide when a “valid expectation” exists and how do they do so? Again, what is a “realistic alternative” and how would the preparer decide when it existed? In addition, paragraph 3.12 (a) provides that a non-legal binding obligation may arise if a majority government announces that it is committed to introduce and secure passage of necessary budget provisions related to an event or circumstance. We believe that this may result in premature recognition of an obligation as a liability as it provides for an obligation to occur even before a budget or bill has been enacted into law. Such issues should be addressed at the standard-setting level. We recommend that this guidance be more conceptual in nature and less prescriptive.

### **Specific Matters for Comment 3**

Do you agree with the definition of revenue? If not, how would you modify it?

**FMSB Response** - The FMSB agrees with the definition of revenue proposed.

### **Specific Matter for Comment 4**

Do you agree with the definition of expenses? If not, how would you modify it?

**FMSB Response** -The FMSB agrees with the definition of expenses proposed.

### **Specific Matter for Comment 5**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?
- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not? 4
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

**FMSB Response** – We agree with the decision to define deferred inflows and deferred outflows as elements as well as the decision to restrict those definitions to non-exchange transactions.

### **Specific Matter for Comment 6**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

**FMSB Response** - We agree with the IPSASB's proposal to use the terms net assets and net financial position and the definitions proposed for these terms.

- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

**FMSB Response**- The FMSB does not agree with the decision to define ownership contributions and ownership distributions as elements. The term owner or ownership is not a term that is normally associated with public sector financial reporting. In most public sector settings, ownership, if the term were used, would be attributed to the citizens governed by the public sector entity. If a government accepted funds contributed from another entity (such as a group of allied governments), it would be inappropriate to term the contribution as an ownership interest.

Ultimately, if ownership contributions/distributions were a fundamental part of a government entity, it could be displayed as a sub-category of net position.

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

**FMSB Response** - We disagree, see above.

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

**FMSB Response** – We believe that ownership interests should not be defined.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org).

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired  
AGA National President

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