

30 November 2015

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Accounting Standards Board  
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Dear Mr. Bergmann,

**Re.: Exposure Draft 56: Proposed International Public Sector Accounting Standard and Recommended Practice Guideline, “The Applicability of IPSASs”**

The IDW responded to the IPSASB’s Consultation on this issue in 2014, and appreciates the opportunity to comment on the exposure draft Proposed International Public Sector Accounting Standard and Recommended Practice Guideline, “The Applicability of IPSASs” (hereinafter referred to as “the ED”).

We maintain our support for the approach the IPSASB is proposing to follow (i.e., approach 1a in the aforementioned 2014 Consultation), and thus agree with the proposed deletion in individual IPSASs and Recommended Practice Guidance (RPGs) of text relating to the non-applicability of IPSASs to Government Business Enterprises (GBEs).

However, we have concerns with certain aspects of the proposals, which we discuss below:

**Confusion as to Status of Revisions to the Preface**

We note from the Executive Summary that “the IPSASB has already approved” revisions to the Preface of the Handbook of International Public Sector Accounting Pronouncements. These revisions are also excluded from ED 56. It thus appears that the IPSASB is not seeking comments on the wording of these

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revisions, despite their impact on this project and the fact that they differ in part from text put forward for constituent's consideration in the 2014 Consultation.

The position for constituents is, however, not entirely clear. The fact that replacing paragraph 10 is the third bullet point of the proposed new approach implies that this is subject to comment. Furthermore, the use of the term "draft description" in the minutes of the IPSASB Meeting held in June 2015 implies that the IPSASB does not consider this text as finalized. On this basis, we comment on paragraph 10 of the Preface below.

We are, however, concerned that this apparent lack of clarity may result in the IPSASB receiving fewer comments in relation to paragraph 10 of the Preface than might otherwise have been the case.

### **Characteristics of Public Sector Entities for which IPSASs are Intended**

The 2014 Consultation included the following description of characteristics of public sector entities:

"IPSASs are designed to apply to entities that:

- a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;
- b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debts or fees and do not have capital providers that are seeking a return on their investment or a return of the investment."

According to the Executive Summary issued in July 2015, the revised paragraph 10 is to read:

"The IPSASs are designed to apply to public sector entities that:

- (a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
- (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment; and,
- (c) Do not have a primary objective to make profits."

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We appreciate that paragraph 10 of the Preface will inform decision makers as to the IPSASB's intended application when developing its pronouncements, and not seek to preclude their application. Given this, we wonder whether the references to the non-inclusion of return on capital in the last part of (b) and profit making in (c) (although useful to highlight the key differences from the private sector during the 2014 Consultation) might add unnecessary confusion if retained in the Preface, particularly if qualified with the terms "mainly" and "primary". In our view this text could be deleted so that the Preface would state only the characteristics IPSASB has considered (i.e., subsections (a) and the first part of (b) up to and including "...fees") rather than those not considered. This would be in line with Chapter 4 of the IPSASB Conceptual Framework. Indeed including both the characteristics IPSASB has considered and those it has not considered implies a bright-line interpretation on the part of IPSASB of the terms "mainly" and "primary" that, given the diversity of the public sector entities worldwide, will not exist in practice.

### **Proposed Replacement of "GBE" with "Commercial Entity"**

We note that the IPSASB is not proposing to define the term "commercial entity", and wonder whether it might be helpful to do so, alongside an explanation of the propensity for there to be various different constructs facilitating commercial activities undertaken in the public sector beyond a "pure" commercial public sector entity. Such text might complement paragraph 10 of the Preface, as it could be useful to those responsible for determining which specific public sector entities are to present financial statements in accordance with IPSASs.

There needs to be more consideration of what this term is intended to mean in the various contexts the IPSASB proposes it be used. For example, it is not appropriate to rewrite the past by merely replacing the term "GBE" with "commercial entity" within text explaining the IPSASB's past decisions, e.g. within the BCs accompanying individual pronouncements and specifically IPSAS 24 BC 10; IPSAS 26, BC 10; IPSAS 28, BC 25; IPSAS 35, BC 8; RPG 1, BC 10; and RPG 3, BCs 8 and 9. Instead, the explanation of the original decision which remains a past event should not be changed but instead be supplemented by an explanation of the impact of the IPSASB's subsequent decision reached in 2015.

In some instances the term GBE had been used to convey the fact that IPSASs are not applicable, such that certain text may no longer be needed, whereas in other instances it is used to convey the nature of the entity. We comment as follows:

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- The text in brackets within the second sentence of paragraph 9 of IPSAS 16 could be deleted. The proposed addition of a new last sentence to this paragraph duplicates the existing fourth sentence.
- The wording of the second sentence of paragraph 24 of IPSAS 18 would be clearer as: “However ... or which distinguishes budget-dependent activities from other activities, as may be the case for commercial public sector entities.”
- As the IPSASB no longer wishes to adhere to its former position that commercial public sector entities do not apply IPSASs, the words “other than commercial entities” could be deleted in the second sentence of paragraph 6 of IPSAS 21.
- Paragraph 3 of IPSAS 24 could be clearer, particularly for translation purposes. It might be more helpful to reword it along the following lines: This Standards applies to those public sector entities that present financial statements in accordance with IPSASs and are required or elect to make their approved budgets publically available. This would obviate the need to mention commercial entities specifically.
- References to GBEs within IPSAS 26 concerning the non-applicability of IPSASs to GBEs are largely redundant. For example, the phrase “other than commercial entities” could be deleted in both sentences of paragraph 5 of IPSAS 26.
- Paragraph 13 of IPSAS 35 appears to need further consideration, given the change in stance as to applicability of IPSASs. There should not be reference to a requirement to comply with IPSAS 35 if IPSASB is not the party determining such requirements.
- Paragraph 6 of RPG 1 and paragraph 3 of RPG 3 could read “Although the IPSASB does not envisage this RPG does not will apply ...”. It is possible that a commercial public sector entity may be required to apply RPGs despite the IPSASB not having intended such use – i.e., the Board no longer precludes application for any public sector entity.

We would be happy to discuss any aspects of this letter.

Yours sincerely,

Klaus-Peter Feld  
Executive Director

Gillian Waldbauer  
Head of International Affairs