

14 June 2018

Mr. John Stanford
International Public Sector Accounting
Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IPSASB website

Institut der Wirtschaftsprüfer
in Deutschland e.V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDE33XXX
USt-ID Nummer: DE119353203

Re.: IPSASB Proposed Strategy and Work Plan 2019–2023

Dear Mr. Stanford,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the Consultation concerning the IPSASB Proposed Strategy and Work Plan 2019–2023 (hereinafter referred to as “the Consultation”).

General Comments

We support the stakeholder Consultation on the IPSASB’s Proposed Strategy and Work Plan for 2019-2023 and agree that the IPSASB should focus on public sector specific issues not currently dealt with in its suite of accrual-based IPSASs.

In a letter dated 24 July 2014 in response to the IPSASB’s previous (and first) Strategy Consultation we suggested the IPSASB undertake a formal post-implementation review of the extant IPSASs. We also commented on the need to review extant IPSASs to ascertain any need for revision following the completion of the Conceptual Framework and to have this articulated as part of the IPSASB’s maintenance activities.

We continue to take the view that information on any issues in application encountered in practice – particularly relating to IPSASs based on IASB’s standards – would be useful to the Board in the context of ongoing maintenance of extant IPSASs, RPGs and its Conceptual Framework. In our view, specific clarification of the IPSASB’s intent regarding ongoing maintenance would also be helpful to the IPSASB’s various stakeholders.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

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Specific Comments

Specific Matter for Comment 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.

We have two concerns in regard to the proposed strategic objective.

Firstly, we question the proposed move to focus solely on public financial management. On page 7 the Consultation suggests that the Strategic Objective proposed for 2019-2023 refines the Strategic Objective as of September 2015 in order to provide a sharper focus for the IPSASB's future work. Specifically, the IPSASB is proposing to delete the words "and knowledge" in the opening sentence:

"Strengthening public financial management ~~and knowledge~~ globally through increasing adoption of accruals-based IPSAS..."

To the extent that "public financial management" is a reporting entity-internal process (i.e., public sector entities manage public funds) whereas "knowledge" is both internal and external, we are concerned that the proposed deletion would imply an intention to focus the IPSASB's work solely on public financial management. Consequently, the proposed Strategic Objective could be perceived as overly narrow and not fully reflective of the IPSASB's public interest mandate. As we pointed out in our comment letter to the IPSASB in respect of its social benefits project, there may be a tension between the informational needs of a broader user base and the interests of a public sector entity's own management.

Secondly, we believe that the IPSASB's intention in regard to the maintenance of current IPSASs is also important and should be clearly articulated. In responding to the IPSASB's previous Strategy Consultation in 2014, we urged the IPSASB to undertake formal post implementation reviews of its standards and also to be sufficiently flexible in developing its Strategic Objective to allow it to respond to relevant emerging accounting issues. We continue to believe a post-implementation review would be appropriate and suggest the wording of the five-year Strategic Objective reflect an intention for the IPSASB to undertake maintenance work in respect of extant IPSASs and RPGs that is both responsive to implementation practicalities and the need for alignment of existing IPSASs and RPGs with the IPSASB's Conceptual Framework. Limited

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further work may also be necessary to maintain the Conceptual Framework itself. Accordingly, we suggest the IPSASB be clear, e.g., by expanding the first bullet point of the proposed Strategic Objective to read: “Developing and maintaining IPSAS and other high-quality financial reporting guidance.....” or otherwise explaining that the term “developing” is intended to include maintenance of extant IPSASs.

Specific Matter for Comment 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 agree with the five Strategic Themes identified.

However, as noted in our response to SMC 1, we believe it would be appropriate for the IPSASB to specifically commit to a dedicated maintenance program for existing IPSASs (and possibly RPGs) during the next five years.

A specific mechanism may also be needed to identify relevant emerging financial reporting issues that the IPSASB would need to address in the public sector-specific environment within the next five years. This is alluded to in Theme C, but may be equally relevant to Theme A.

We suggest the Board consider where these additional aspects might be best reflected in the proposed Strategic Themes, or whether a further Strategic Theme should be added to address them specifically.

We discuss the five proposed Strategic Themes in turn:

Theme A

We agree with the clarification that Theme A “setting standards on public sector specific issues” is the main area where the IPSASB can add value. We thus agree that the majority of the IPSASB’s efforts should continue to focus on standard setting for those key public sector specific issues not already addressed by an IPSAS.

Theme B

We agree that convergence with IFRS continues to be important for the reasons explained in the Consultation.

A further reason not discussed in the Consultation is that many investors who provide financial support to public sector entities e.g., government bond holders,

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are familiar with financial statements prepared in accordance with IFRS. This aspect could be explained in finalizing the IPSASB's Strategic Objective and Work Plan 2019-2023.

We note that the IPSASB has not developed a policy as to the timing of an IFRS convergence project. For example, the recently issued ED 64: Leases converges an IFRS that is not yet applicable in the private sector. The development and communication of such a policy might be appropriate to allay fears some constituents may have as to the premature convergence with IFRSs that have not yet been tried and tested within the private sector.

Theme C

In regard to Theme C, we agree that general purpose financial statements may not satisfy all user needs for financial information pertaining to the public sector and that the IPSASB should monitor user needs and emerging issues and relevant work of other standard setters in the broader financial reporting space.

However, if a financial phenomenon either meets the IPSASB's Conceptual Framework definition of an item that should be presented on the face of a financial statement or would be appropriately included as a disclosure accompanying the financial statements then a different form of report – although it may well provide supplementary information – would not, of its own, be an appropriate substitute.

Theme D

We support the IPSASB continuing outreach activities, including participation in the technical aspects of EPSAS development. We note that the IPSASB now acts on many of the issues we had raised in our previous comment letter (proactive use of roundtables, obtaining collective views where possible, etc.).

Theme E

We agree with the approach to work alongside other professional groups and sponsoring organizations.

Specific Matter for Comment 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.

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If you do not agree please explain why, including any proposed alternatives.

We broadly agree with matters nos.1-3.

We have reservations as to the practical impact of including matter no. 4 and note that the assumed potential to deliver on a project within a reasonable time period should not prevent challenging projects being prioritized on the basis that the IPSASB needs to have a balanced work plan that includes projects with a mix of complexities (see text immediately following the four criteria, which itself is not a criterion).

Some financial reporting issues will be far more complex than others. The IPSASB can now refer to its Conceptual Framework to determine whether technical soundness can be expected to be achievable before committing significant resources to a specific project. Time and resource constraint considerations should not be used to preclude the IPSASB from prioritizing an urgent, highly prevalent issue where addressing the issue would be in the public interest.

We refer to the IAASB's prioritization of the new auditor reporting model. Although many other ongoing projects had to be delayed significantly or halted, the high prioritization of this project enabled the IAASB to deliver a solution well ahead of the time it would have otherwise taken. Clearly this type of imperative must be an exception. Nevertheless, it may well be appropriate for the IPSASB to hold firm when there is external pressure to complete a selected project in an unreasonable timeframe, e.g., where this would not be appropriate because further consultation of key aspects with stakeholders is warranted.

Specific Matter for Comment 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 comment on each of the new public sector specific projects prioritized for inclusion in the 2019-2023 Work Plan in turn:

Natural Resources

We appreciate that the management of access to a nation's natural resources is a significant issue in some jurisdictions. Some natural resource usage may also

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be a key issue in the wider debate on climate control, etc. There is thus wide public interest in this issue. However, in our jurisdiction public sector accounting for natural resources is not a key priority.

Experiences in private sector accounting (also in some cases public sector owned entities) reveal that determining the title to, and quantification of, natural resources is extremely costly and prone to inexactitude, and, even where ownership issues can be resolved and volumes can be properly assessed, corresponding valuation may be heavily impacted by wide price fluctuation. These factors necessarily limit severely any meaningful depiction of natural resources as an asset in the financial statements of public sector entities. These factors would also be relevant in assessing any benefit from other forms of reporting (GPFR).

The issues mentioned in the Consultation (granting of extraction rights to third parties without relevant information on value being available) are unlikely to be resolved by IPSASB developing an IPSAS, a RPG, or another pronouncement in relation to financial reporting on natural reserves.

Currently we would, therefore, support the IPSASB restricting its use of resources to a project to explore the accounting-related issues arising in regard to natural resources (e.g., potential to recognize and measure assets or related obligations) and related items (such as licenses or exploration rights that may be granted to a third party etc. as well as decommissioning issues etc.).

Discount Rates

We acknowledge the need to further explore the issue of discount rates and support the IPSASB initiating a project to explore this issue. This is not, however, specific only to the public sector, and so we would encourage the IPSASB to draw on the research of others such as the IASB (summary of research findings is due for publication in June 2018) in this project.

Differential Reporting

We are not convinced that a project on differential reporting will be an appropriate use of the IPSASB's resources. As the Consultation rightly points out, even public sector SMEs need to be fully accountable to constituents for their use of public funds.

The experience of the IASB indicates little take up of their SME-standard, generally on the basis that the IFRS for SMEs is not suitable for use in the capital markets.

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Conceptual Framework Limited-Scope Review

We support a limited review of the IPSASB's Conceptual Framework as proposed in the Consultation.

We also support the proposed evaluation of the need for the IPSASB to make changes to its literature in the light of the IPSASB Conceptual Framework chapters on Elements and Recognition (the chapter on Measurement being already encompassed in the current projects). However, a comprehensive alignment is appropriate, and thus we do not understand why the Conceptual Framework chapter on Presentation is not also referred to.

Specific Matter for Comment 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.

We believe that the IPSASB should complete its so-called catch up in which older IPSASs are brought up to date with relevant subsequent IFRS revisions as a matter of priority. For example, we believe there is a clear case for revision of both IPSASs 1 and 20.

In our opinion, convergence with IFRS 17 would be premature at present. In our letter to the IPSASB on ED 63: Social Benefits, we suggested that the IPSASB monitor the prevalence of insurance contracts and assess the need for a convergence project subsequently.

As explained in our response to SMC 2, the development and communication of an IFRS convergence timing policy might be appropriate to allay the fears some constituents may have as to the premature convergence of IFRSs that have not yet been tried and tested within the private sector.

In regard to IPSAS 18, we refer to our suggestion in SMC 1 that the IPSASB conduct a post-implementation review of extant IPSASs. The Consultation discussion already indicates that IPSAS 18 may not provide information useful to the public sector. If this is the case, it would not fulfil the criteria for project prioritization, and thus the IPSASB might need to consider withdrawing this IPSAS from its suite of standards.

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Specific Matter for Comment 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.

In our view, public sector intangible assets including sovereign powers is an important issue that has not yet been fully dealt with by the IPSASB. We would support the IPSASB starting initial research in this area.

Specific Matter for Comment 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 agree to the proposed approach under Themes D and E and are not aware of relevant ongoing initiatives in our jurisdiction which IPSASB could usefully monitor and engage with.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to discuss our views with you.

Yours truly,

Klaus-Peter Naumann
Chief Executive Officer

Gillian G. Waldbauer
Head of International Affairs