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Budget

The Accounting Officer of the Commission

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**NOTE FOR THE ATTENTION OF PROF ANDREAS BERGMANN,
CHAIR OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**

Subject: Consultation on IPSASB work program 2013-2014

Thank you for the opportunity to comment on your consultation paper on the IPSAS Board's work program for 2013-2014. The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other European Bodies with an annual budget of more than EUR 140 billion. After several years of receiving an unmodified opinion from the European Court of Auditors on the EU's IPSAS based accounts and given our experience in defining and implementing the accounting framework for a large governmental organisation, I believe that our input can be of value to the work of the IPSAS Board. I would stress, that this note does not represent a communication of the European Commission or any other Commission's service, rather it is my professional opinion on the program presented.

As one of the biggest international and supranational organisations with more than 7 years of experience in implementing accrual accounting based on IPSAS, we welcome your first public consultation on the IPSAS Board's work program. We share your opinion that in the current times of sovereign debt crisis it is of utmost importance to issue high-quality financial reporting standards so as to provide the addressees of financial reporting with the necessary information as a basis for their decisions. This public consultation can be seen as a starting point to address the information needs of addressees of financial reporting and certainly increases acceptance of IPSAS as well as their implementation by governments and governmental organisations.

As you also mention in your consultation paper the project on the **Conceptual Framework** is and should remain the most important project of the IPSASB. This project is already on-going for some time and explicitly takes into account public sector specificities. As the Conceptual Framework not only serves as a basis for the development of future IPSAS and other pronouncements, but can also be used as a reference point for the interpretation and implementation of IPSASs by preparers, it can be considered as the project that could pave the way for a broader IPSAS adoption and implementation worldwide. We are therefore of the opinion that IPSASB resources should be clearly focused on this project with the objective of completing it before the end of 2014.

There is a likelihood that the work to complete the Conceptual Framework in 2013 and early 2014 may be more onerous than expected, which could lead to a delayed finalisation of the Conceptual Framework, currently foreseen for March 2014. We therefore think that it might be advisable to **not start any new projects in 2013** and rather use resources from other completed projects[1] to support the Conceptual Framework project.

As already stated above, the Conceptual Framework should serve as a basis for the development of future IPSASs. We therefore believe that no new project, except small less resource intensive projects that are based on existing IFRS, should be started before the Conceptual Framework project is finished. Given the relatively long list of current projects, we believe that there are enough projects in the work program until mid-2014 to work on.

Since the project to **converge IPSASs with IFRSs** has been finished at the end of 2009, we as a financial statement preparer would welcome a **stable platform** as regards those IPSASs. One argument for this would be that there are on the one hand enough public sector specific issues to be addressed by IPSASB, and on the other hand, preparers need some time to implement new IPSASs and to reach stable processes in certain areas before the standards are re-written. We believe that the way that the IASB introduced such a stable period in the past is a good example in this area. With that in mind we do not see the need to work for the next 3 years on IPSAS 5, 18 and 20. The same applies in principle to a potential small and medium-size entity standard. Our experience with small EU agencies shows that their business operations are rather limited and a number of IPSASs do either not apply at all to them, or, when they apply, then only the very basics of the IPSASs and not the more complex parts are applicable. This essentially means that our smaller EU agencies can live very easily with the existing set of standards once a careful analysis of the relevance of certain standards or parts of standards has been performed. We thus believe that the IPSAS Board should in the near future not designate resources to this potential project.

After the finalisation of the Conceptual Framework (mid-2014 and later) we would encourage the IPSAS Board to **focus on those public sector specific issues** where either no standard exists elsewhere (i.e. no IFRS) or where inconsistencies in exiting public sector specific standards exist.

The project on **social benefits** has been started more than 10 years ago and in the meantime steps in the direction of re-initiating the project were taken. Although we acknowledge that it might be difficult to reach consensus in that area of accounting we think this really important public sector specific issue needs to be either definitively addressed by the IPSASB, as it is crucial for reporting on obligations of governments, or dropped – we favour the former. The complexity and difficultness of a project should not per se be a criterion for the in- or exclusion in the work program. From a preparers point of view it is in any case more urgent to receive guidance on issues where no standard is available elsewhere. The Conceptual Framework once finalised will enable the Board to concentrate on this kind of public sector specific projects.

Non-exchange transactions represent in most public sector entities the majority of business transaction. This is also the case in the European Union institutions where more than 95% of the transactions recorded in the financial statements are of a non-exchange nature. The issuance of IPSAS 23 was a milestone in reporting on non-exchange transactions but indeed practise might show that the compatibility with other IPSASs needs to be addressed. Therefore, although we recognise that it

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[1] I.e. Financial Statement Discussion and Analysis, Reporting on the Long-term Sustainability of Public Finances, Improvements.

would mean work on already existing IPSASs, we strongly encourage the Board to look at this as it is an essential standard for many public sector entities.

The accounting for **Emission Trading Schemes** (ETS) from a grantor perspective would be another example for a public sector specific project that could be addressed by the IPSAS Board. The European Union's ETS works on the "cap and trade" principle and has as its objective that in 2020 emissions will be 21% lower than in 2005. The EU's Emission Trading Scheme launched in 2005 now operates in 30 European countries and covers CO_2 emissions from installations such as power stations, oil refineries and iron and steel works. This demonstrates that this project is of relevance in the European context.

If the IPSAS Board would prefer to work on less resource intensive projects we would encourage the work on **Leases** because of the relevance to public sector entities. As outlined in the consultation paper, the IASB is changing its approach to lease accounting so that all assets and liabilities arising under a lease contract are recognised in the financial statements. As most of the buildings of the EU institutions and agencies are under lease contracts this project is of relevance to us and most likely to many other public sector entities. As there is in principle no public sector specific reason to depart significantly from the private sector standard this project could be managed with fewer resources than others and be started in parallel with more resource intensive public sector specific projects.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any question you may have on the above.

Manfred Kraff

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