

Finance

Comptroller's Division

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Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario
M5V 3H2

Dear Sir/Madam:

Re: Conceptual Framework Exposure Draft 2 – Elements and Recognition in Financial Statements

Thank you for the opportunity to comment on the IPSASB Conceptual Framework.

The Province of Manitoba does not support *Exposure Draft 2 – Elements and Recognition in Financial Statements*. The Province does agree with most aspects of IPSASB's conceptual framework; however we strongly disagree with the definition of revenue and expenses.

The ED defines revenue and expenses to include all increases and decreases in net assets other than ownership contributions, ownership distributions, deferred inflows, and deferred outflows. As such, revenue and expenses would include increases and decreases in net assets that arise from exchange and non-exchange transactions, other events such as price changes, the consumption of assets through depreciation and erosion of service potential, and unrealized increases and decreases in the value of assets and/or liabilities.

ED 3 – Measurement of Assets and Liabilities in Financial Statements lacks specific criteria for determining the appropriate measurement basis to apply for a specific situation. The Province feels that it is likely that future IPSAS will recommend or permit the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards. Under IPSASB's conceptual framework unrealized gains and losses would be included as revenue and expenses thereby affecting the net results from operations for the accounting period.

The introduction to IPSASB's conceptual framework was finalized in January 2013. IPSASB has identified the objectives of financial reporting by public sector entities to be providing information that is useful to the users of financial statements for accountability and decision making purposes. As part of accountability, governments and other public sector entities prepare, approve and make publicly available an annual budget. Financial statements provide information to users in assessing the extent to which the financial results has met its budget objectives.

If the EDs are approved as currently written it will become increasingly difficult for users to understand and compare the reported results in the financial statements against voted budgets which are prepared on a different basis from the financial statements. Summary budgets for most senior Canadian governments are aligned with the basis upon which financial reports are prepared. The Province is concerned with the potential erosion to transparency and accountability in public sector reporting when information is not presented in a clear and understandable way to the general public and their elected representatives.

The difficulty to budget for future unrealized gains and losses makes the IPSASB's proposed model for financial statements to be challenging at best, and likely to create further misalignment between fiscal accountability and financial reporting frameworks.

We would like to again thank IPSASB for the opportunity to comment on this CP.

Yours truly,

“original signed by”

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba

Specific Matters for Comment

Specific Matter for Comment 1 -Do you agree with the definition of an asset? If not, how would you modify it?

The Province agrees that assets are inflows of either service potential or economic benefits that an entity controls, and which arose from a past event. The Province especially agrees that the entity must have control of the resource at the reporting date. Control of the resource entails the ability to use the assets benefits but also includes the ability to direct other parties on the nature and manner of use of the benefits.

Specific Matter for Comment 2

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

The Province agrees with the definition of a liability. A liability is 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.

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

The Province agrees with the description of non-legal binding obligations.

Specific Matter for Comment 3 - Do you agree with the definition of revenue? If not, how would you modify it?

The Province does not agree with the definition of revenue. Revenues should not include unrealized gains on the value of assets and liabilities. Unrealized gains should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a separate statement.

Specific Matter for Comment 4 - Do you agree with the definition of expenses? If not, how would you modify it?

The Province does not agree with the definition of expenses. Expenses should not include unrealized losses on the value of assets and liabilities. Unrealized losses should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a separate statement.

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?

The Province agrees with the decision to define deferred inflows and deferred outflows as elements. Many inflows or outflows from non-exchange transactions relate to future periods. These inflows and outflows should be deferred to the appropriate period.

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

Specific Matters for Comment

(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?

The Province agrees that deferred inflows and outflows should be restricted to non-exchange transactions.

(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

The Province agrees with the definition of deferred inflows and deferred outflows. If an inflow or outflow from non-exchange transactions do not relate to future periods then they are revenue or expenses of the current period.

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?

The Province agrees with the terms of net assets and net financial position. Net assets is the difference between assets and liabilities. Net financial position is the net assets plus the deferred outflows less the deferred inflows.

The Province recommends that before arriving to the net asset position, financial statements should present a net debt or net asset position. The net debt position would present the financial assets less all liabilities. Non-financial assets would then be added to the net debt position to arrive at the net assets.

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

The Province disagrees with the IPSASB's decision to include ownership contributions and ownership distributions as elements. The inclusion of ownership contributions and ownership distributions is inappropriate to the public sector and at best unnecessary. Most public sector entities in Canada are corporations without share capital and have no ownership interests. Transfers from governments to public sector entities are not contributions. They are revenue if the transfer relates to the current period or a deferred inflow if the economic benefits and service potential relates to future periods.

(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?

The Province disagrees with IPSASB's decision to include ownership contributions and ownership distributions as elements.

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

It is unnecessary to define ownership interest in the public sector environment.

Specific Matters for Comment

Specific Matter for Comment 7 - Do you agree with the discussion on recognition? If not, how would you modify it?

The Province agrees with the discussion on recognition. Recognition involves an assessment of existence uncertainty and measurement uncertainty. Determining whether the definition of an element has been satisfied requires professional judgment. Transactions are the most common basis for recognizing and derecognizing items as elements although the occurrence of a transaction is not necessary for an element to exist.

In order to recognize an element it is necessary to measure the element by attaching a monetary value. The use of estimates is an essential part of measuring elements. The selection of an appropriate measurement basis is discussed in *ED 3 – Measurement of Assets and Liabilities in Financial Statements*.