

Consultation Paper
Consultation on IPSASB Work Program 2013-2014.

Dear Stephenie,

It is a pleasure to contact you. We hope you are doing well. We would like to make some comments on the Work Program 2013-2014.

Our views are based on the experience obtained in some countries of Latin America (Panamá, El Salvador, Costa Rica and Dominican Republic). These countries are at different stages of implementation, from those modifying their own legislation for adoption, to the ones already under the implementation process.

We ordered our comments as follows:

- Current Projects
- Potential Projects
- Not contemplated Projects

Current Projects	Comments	Public Sector specific needs
IPSAS and Government Finance Statistics Reporting Guidelines	We highly appreciate the treatment of this issue	
Revision of IPSASs 6-8	IPSAS 6 – Concept of Control	<p>We expect this is not only the convergence of the amendments of the IAS/IFRS, but also the study of the concept of Control, as in the Public Sector (at least in Latin American countries) said concept is different from the one contemplated in IPSAS 6.</p> <p>PS entities understand control to the procedures performed by external and internal control bodies. Little is mentioned about “audit” and only control is mentioned.</p> <p>Also, it is material not to limit the consolidation to the control procedures, when talking about the elaboration of FFSS at national level, there is no “control” (in the terms of IPSAS 6) from a governmental level to the other. Even if IPSAS 22 allows for the elaboration of financial information on the GGS, there could be a country wishing to consolidate line by line with financial companies</p>

		<p>and entities, and this would not be permitted with the current regulatory framework.</p> <p>Finally, the possibility of accounting for shares at cost under IPSAS 7 should be limited to exceptional cases where the shares method cannot be used (taking this as the method which most clearly allows for measurement of shares in other entities).</p>
First Adoption of IPSASs	Time of	<p>We highly appreciate the treatment of this issue (issue requested at CReCER Bs.As. 2011)</p>
Public Sector Financial Instruments		<p>The treatment of Instruments of Liabilities and Patrimony are for the Private Sector. Even though there are some comments son Public Bonds, the development is limited, and there is large detail about the issuance of Shares, with the knowledge that in the GGS there is no issuance of Shares (or any other bond granting a share on the patrimony), which can be held by Public Business Enterprises, but the latter are ruled by the IFRS.</p> <p>Thus, we understand that the detailed development of patrimony bonds is unnecessary. On the contrary, it is necessary to deal with the purchase of shares as Assets instrument and its holding, as Governments do purchase shares.</p>
		<p>The Public Sector has a set of Debt Instruments which is material for every country: the sovereign debt collocation, either internal or external, through Bills and Bonds, of any type (in foreign currency, variable interest rate, by inflation ratio, etc.). In some cases, guarantees for the issuance of said bonds are future tax collection or strategic reserve funds.</p> <p>Also, the “renegotiation of sovereign debt” should be highlighted (capitalization, refinancing, reduction, etc.).</p>
		<p>Coverage Accounting</p> <p>In Latin American countries we are in the struggle of changing to governmental accounting, which is not easy at all. Thus, thinking of dealing with a coverage accounting when many countries are not yet</p>

		<p>thinking about governmental accounting would be impracticable, at least at medium term.</p> <p>For this reason, we understand this issue should be taken as “non compulsory” (may be within a term of five to ten years after adoption), but of course recommended in order to increase accountability.</p>
	Patrimony Instrument	<p>There should be analysis of “capital transfers” granted by the Central Government to governmental entities, when said transfers can be capitalized, as they are made to finance works, purchase of property, plant and equipment and other similar purposes.</p> <p>Also, it is necessary to be more specific about the moment when debt contracted or cancelled by controlled entities is considered capitalized, as IPSAS 23 only indicates they could be contributions from shareholders.</p> <p>About this, we mention again the large development of patrimony instruments (when this is not applicable to non business public entities) and the lack of treatment of the concept of capital in said entities.</p>
Amendments to IPSASs 28-30	<p>We are concerned about the fact that convergence of IPSASs 28-30 with new IFRS is included in this Group of current projects. Changes in the IFRS are relevant and especially about the new potential classification (from four categories to two). We should mention that the IPSAS on Financial Instruments are complex for the Public Sector and specifically for accounting areas; and less for the areas of Treasury and Public Credit issuance; but accounting areas in general are not prepared</p>	<p>For this reason, we consider that firstly the current IPSASs on Financial Instruments should be adjusted to the Public Sector, and then see if they adjust to the new IFRSs, and we ask for prudence in this convergence.</p> <p>To try convergence without considering the real situation of the public sector will be a double effort as they will have to be adapted to the characteristics of said sector.</p>

	to deal with these issues yet.	
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Potential Projects	Comments	PS specific needs
Heritage Assets (public sector specific)	This has been an issue under study by the IPSASB for several years. We consider the same should be changed to <u>priority</u> .	This is one of the most requested issues by the Public Sector authorities. We think there has been great progress with the regulations of IPSAS 31 “Intangible Assets”, being it mandatory to disclose them in the Notes, if they cannot be reliably measured. This should be the concept applied to the standard on Heritage Assets, but we insist on the fact that its treatment should be priority, as it is of material importance for the Public Sector.
Small and Medium Enterprises (SMEs)	Within IPSASs, IPSAS 22 clearly defines Sectors. Even if said standard is optional, it groups the information according to GGS, and clearly defines the “governmental entities” within the GGS. Under said concept, it can be given <u>priority</u> and not be delayed until the Conceptual Framework for the Public Sector has been completed.	For the countries implementing IPSASs, it is a problem to implement IPSASs for “small and medium governmental entities” (it is suggested to replace the word Enterprises). Especially, small and medium municipalities (local governments), which have very limited accounting movements (small revenue, transfers received from central government and minimum municipal expenses) and not very complex transactions. They also have little technical background and equipment, which limit the integral application of IPSAS in very little municipalities. Thus, small and medium municipalities need a simplified framework adapted to the simplicity of their transactions as well as said limitations and weaknesses.
Social Benefits	This has been an issue under study by the IPSASB for several years. We consider the same should be changed to <u>priority</u> .	This is one of the mostly needed standards of the Public Sector, not only due to its specificity but also for its high incidence on the total budget of the Government.
Sovereign Powers and their impact on Financial Reporting	<u>Eliminate</u> the issue from potential projects	Taken as an isolated accounting concept from the reality where it is to be applied, it could be considered an intangible asset. But the real thing is this asset is peculiar for its measurement in the Public Sector,

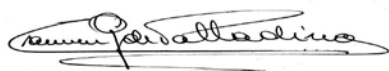
		<p>as it:</p> <ul style="list-style-type: none"> • Is not very reliable and • Can be used politically. <p>If to be considered in a future IPSAS, this will imply to give governments a tool to be used politically to adjust results to unrealistic positions.</p> <p>Prudence is suggested in said application as the future standard can become a boomerang against accountability and we would be dealing with a political aspect which we are not concerned with.</p>
Revenue recognition	Exchange revenue with tax nominations	<p>The Public Sector has a lot of Special Fees and Contributions which in most cases can be treated as non Exchange revenue (assimilated to Taxes), but in other cases represent sale of services (and sometimes goods).</p> <p>We think it is necessary to enlarge IPSAS 9 to explicitly include these cases which are material for the Public Sector (and are not dealt with in IFRS/IAS. For example, fees for the issuance of driving permits, lighting contributions, fees for vaccination, among others.</p>

NOT Contemplated Projects	Comments
Revision of IPSAS 11 Construction Contract	<p>This standard should be adapted to real situations of the Public Sector, such as:</p> <ul style="list-style-type: none"> • Construction of Works by administration (that is, undertaken by the PS entity) has materially decreased. • On the other side, contracts by the government of private entities for the performance of said works has increased, mainly through concessions. • Operations within the Public Sector in which a governmental entity (Ministry of Public Works) constructs or hires a private to construct, with its own Budget a school for the Ministry of Education and transfers it when it is finished. This origins a series of accounting movements which should be included in the standards • It is highly probable that if an entity performs works, either constructs or hires, the disposition of the asset in favor of a third party will be a non exchange transaction. <p>Basically the standard needs to be adjusted to these new situations and mostly to the fact that for PS entities the revenue could be null</p>

	<p>or insignificant in relation to the product delivered. To relate it to Works hired under concessions Systems. Enhance the concepts when the government hires the work from a third party under different characteristics to be considered, such as:</p> <ul style="list-style-type: none"> • Contract key in hand, where the third party (private) constructs and delivers the work finished, and at that moment the government implements its payment method X. • Contracts key in hand, but with regular payments by the government. • Contracts for work progress. • Treatment of financial advance payments.
Trust Funds (TF)	<p>TF are frequently used in the Public Sector as they are used to draw funds from the financial administrative circuit and manage them more independently, or at least with greater flexibility from the budgetary aspects. Said TF are constituted for different activities such as the construction of houses, schools and hospitals, projects defined by the government, and other objectives. TF have the characteristic of being considered by most of the national laws, as TF with own patrimony, as thus separated from the patrimony of the government by dependant from the contributions of the same. Their accounting treatment is not clear; some countries consider it as another accounting entity of the Government, taking it as a capital share, and others as a credit or account collectible due to the assets transferred to the TF, and its variations according to its participation in the net assets of said TF. It is noted that some do not register them, and only when transferring funds destined to a TF register directly an expense. We consider this a mistake. Most of the Latin American countries request treatment of this issue.</p>
Natural Resources (exploitable and under conservation)	<p>One of the main problems of the PS is Natural Resources. The same are not inventoried, there is no idea of which they are, and let alone of their value, but they are frequently granted for exploitation by third parties (gold and copper mines, sand extraction, oil exploitation, use of rivers and energy resource, use of waters). We consider that an organization such as the IPSASB should include in its agenda this issue for its accounting treatment, as they are probably the main assets of governments. Examples:</p> <ul style="list-style-type: none"> • The exploitation of open air gold mines in Argentina has led to a request from the justice to the Central Government of an inventory of the Glaciers (fresh Waters reservoirs)

	<p>due to the exploitation of the same for the extraction of gold from said mines.</p> <ul style="list-style-type: none"> • The exploitation of Paraguay River by the Government of Paraguay. • The contribution of Natural Resources (Paraná River) to the Joint Business “Ente Binacional Yacyreta” (Paraguay / Argentina). • The treatment of Waters reservoirs (Guarany aquifers) • The exploitation of forests. <p>Basically, a guideline should be provided in order to measure said assets when the same are exploited by third parties, because when the same are granted to be exploited the government ignores what to give and at what value, and thus if what it receives for the exploitation is at a reasonable value or it is granting the exploitation of the natural resources at a loss of value.</p> <p>To this respect, at least the guidelines should be defined to register said resources when the same are exploited, and then deal with said natural resources when at a conservation status. However, an integral treatment is recommended (resources exploited and under conservation).</p>
<p>Infrastructure Assets</p>	<p>We consider pertinent, due to its specificity, to develop a specific standard to deal with the registration, measurement and disclosure of infrastructure assets. Usually, this type of assets has not been registered in the accounts of any country, which requires not only larger implementation periods than those set for Property, Plant and Equipment, but also higher detail for depreciation, tear and wear, revaluations and, especially, to set precise limits for the treatment of improvements, which in most cases result in mere maintenance expenses of services potential (sometimes of generation of future economic benefits) of said assets.</p>

Regards,



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