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PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

March 1, 2013

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

Re: PSAB Staff Comments on Consultation Paper "IPSASs and Government Finance Statistics Reporting Guidelines"

Thank you for the opportunity to comment on the IPSASs and Government Finance Statistics Reporting Guidelines Consultation Paper (CP or consultation paper).

Understanding that the objective of this project is to further reduce the differences between International Public Sector Accounting Standards (IPSASs) and public sector government finance statistics (GFS) reporting guidelines, it is important to note that due to some key conceptual differences, specifically those discussed in Table 1 of the consultation paper, it would be extremely difficult to reduce all the differences between the two reporting frameworks.

Please note that the views expressed in this letter and the specific comments in the attached Appendix are those of PSAB staff and have not been considered by the Public Sector Accounting Board.

Lastly, we would like to congratulate IPSASB on achieving the first milestone of this important undertaking.

Sincerely,

Antonella Risi

Antonella Risi, CA
Principal
Public Sector Accounting

APPENDIX: RESPONSES TO IPSASB SPECIFIC MATTERS FOR COMMENT CONSULTATION PAPER: IPSASs AND GOVERNMENT FINANCE STATISTICS REPORTING GUIDELINES

Specific Matter for Comment 1 (See Section 3 and Appendix B)

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B;

(a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?

For the most part, I agree that the issues found in Table 2, Category A, are indeed resolved. However, there are a few issues in this category that do not seem to be 'completely' resolved as indicated by the description and analysis found in Appendix B: Differences between IPSASs and GFS Reporting Guidelines - Progress and Current Status. The items that appear to require further resolve include:

- *A4 – measurement and recognition of non-cash-generating assets, including heritage assets – based on the analysis provided in the CP, measurement differences may still arise where there is not an active market. As a result, further guidance needs to be provided in this area.*
- *A6 – capitalization and classification of defense weapons – based on the analysis provided in the CP, more clarification is required with respect to when defense weapons should be classified as inventory versus property, plant and equipment and when defense weapons should be expensed.*
- *A8 – costs associated with R&D and other intangible assets – based on the analysis provided in the CP, further guidance needs to be provided in the GFSM to address the possibility of differences in practice in recognizing versus capitalizing R&D costs.*

I am also having a difficult time understanding how issue A7, recognition and de-recognition of financial instruments, has been resolved. Consequently, for this issue, I am unable to answer the question posed.

I would like to this opportunity to make a few comments on Table 2, Category D. The introduction of the CP states that the CP also considers ways to support the management of the remaining differences. Table 2, Category D, lists the differences that will need to be managed. For some issues, how the difference can be managed is indicated, either through systems design, data collection and/or Chart of Accounts mapping. However, for the following issues, there is no proposal on how to manage the difference:

- *D6 – correction of errors through prior period adjustments/back casting;*
- *D7 – nonperforming loans;*
- *D9 – equity as liability;*
- *D10 – contributions from owners for commercial government operations;*
- *D11 – transactions between the central bank and government entities; and*
- *D12 – costs associated with R&D and other intangible assets.*

As a result, there does not seem to be the same support for the management of differences for all the issues identified in this section.

(b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to the list? If so, please describe these.

First, it is important to acknowledge that great work was done in summarizing the multiple pages of issues identified in the 2005 Research Report in the consultation paper.

In order to answer this question, a review of the Matrix in the 2005 Research Report which identifies, and groups for analytical purposes, key differences between accounting and statistical bases of financial reporting as at June 30, 2004, was conducted. Based on this review, it was identified that for the most part the differences between IPSASs and GFS reporting guidelines have been identified in the consultation paper. However, there are a few items, which are identified in the matrix, that have not been identified in the consultation paper. These include:

- *Distributions to owners as holders of equity instruments and distributions from controlled entities (issue 2.3 in the matrix);*
- *Costs of issuing equity instruments (issue 5.2(a) in the matrix);*
- *Investments in associates (issue 5.6 in the matrix);*
- *Debt cancellation (issue 6.1(b) in the matrix);*
- *Debt rescheduling (issue 6.1(c) in the matrix);*
- *Recording of leases in relation to cash flows (issue 8.2 (a) in the matrix);*
- *Repurchase premiums and discounts on debt securities (issue 8.4(a) in the matrix);*
- *Defined benefit pension schemes – actuarial adjustments, interest costs and return on plan assets (issues 8.4(b) and (n) in the matrix);*
- *Initial recognition of naturally occurring assets not acquired or donated that previously were not known to exist and can now be meaningfully measured, such as water resources and the electromagnetic spectrum (issue 8.4(g) in the matrix);*
- *Swap interest (issue 8.4(o) in the matrix); and*
- *Recording of tax credits (issue 8.4(p) in the matrix).*

It is possible that these items have been resolved. In the spirit of completeness of the consultation paper, it may be worthwhile to indicate the progress and/or resolution of these items.

Specific Matter for Comment 2 (See paragraphs 4.11 to 4.17)

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of an integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Chart of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

Creating guidance on the development of an integrated Chart of Accounts which would include the items listed from paragraphs 4.14 to 4.16, is a good initiative to undertake in conjunction with the statistical community.

Specific Matter for Comment 3 (See paragraphs 5.2 to 5.4)

(a) Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?

Given the benefits arising from using IPSAS-based data for GFS reports, a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines makes sense. However, caution should be exercised in developing the systematic approach. Due to the different objectives between the two reporting frameworks, GFS guidelines should not be the sole driver of changes to the IPSASs. Changes to IPSAS must be driven by a financial reporting issue that has arisen. Any changes to IPSAS must be consistent with the Conceptual Framework, with the underlying IFRS and must yield intended results.

(b) If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?

No other changes have been identified at this point in time.

Specific Matter for Comment 4 (See paragraphs 5.5 to 5.19)

Are there other areas where IPSAS changes could address GFS differences? Please describe these.

No other areas have been identified at the moment.

I would like to take this opportunity to make a few comments related to the paragraphs noted in the Specific Matter for Comment 4. These include:

- *The first bullet point in paragraph 5.5 states that IPSASB could "change the requirements in existing IPSASs to further align them with GFS reporting guidelines". As indicated throughout this response document, due to the different objectives between the reporting frameworks, GFS guidelines should not be the sole driver of changes to the IPSAS. Although the reduction of differences between the two reporting frameworks is accepted, changes to IPSAS must be driven by a financial reporting issue that has arisen. Any changes to IPSAS must be consistent with the Conceptual Framework, with the underlying IFRS and must yield intended results.*
- *Paragraphs 5.15 to 5.17 are intended to address differences in measurement (issue B6) and differences in accounting for transaction costs (issue B7). The paragraphs explain how the measurement issue can be addressed; however, the issue of accounting for transaction costs appears to be overlooked.*

Specific Matter for Comment 5 (See paragraphs 5.20 to 5.28 and page 39)

This CP describes three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

(a) Are there any further IPSAS 22 options that should be considered? If so, what are these?

No other IPSAS 22 options have been identified at this point in time.

(b) Which one of the options do you consider that the IPSASB should consider adopting?

IPSASB should consider adopting Option B, the withdrawal of IPSAS 22. IPSAS 22 was created to encourage the disclosure of the GGS information, particularly in those jurisdictions in which national or other governments, publish both financial statements in accordance with IPSASs and financial information in accordance with statistical bases of financial reporting. Unfortunately, based on the analysis conducted by IPSASB it appears that the IPSAS is not producing its intended result. Consequently, the IPSAS should be withdrawn. Some of the revisions listed in Option A require further work on the part of the preparer and as a result, may not encourage the voluntary compliance with IPSAS 22. The integrated approach offered in option C appears to be very similar to IPSAS 22. Replacing IPSAS 22 with a new IPSAS similar to AASB 1049 which is comparable to IPSAS 22 may end up with the same result as the current IPSAS. It is for these reasons, that the withdrawal of IPSAS 22 is preferred.