ICGFM The International Consortium on Governmental Financial Management

PO Box 1077
St Michaels, MD 21663
T. 410-745-8570
F. 410-745-8569

April 29, 2011

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

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultative Paper on Elements and Recognition in Financial Statements. We are pleased to see the IPSASB move forward in developing the conceptual framework.

2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

3. The following responses are provided for each specified comment:

Comment 1:
(a) Should the definition of an asset cover all of the following types of benefits—those in the form of: (i) Service potential; (ii) Net cash inflows; and (iii) Unconditional rights to receive resources?

Response—We are comfortable with including all 3 types of benefits: service potential, net cash inflows, and unconditional rights to receive resources. However, there is need for further clarification about "unconditional rights to receive resources".

(b) What term should be used in the definition of an asset: (i) Economic benefits and service potential; or (ii) Economic benefits?

Response-- To be all inclusive, we prefer the term "economic benefits and service potential".

Comment 2:

(a) Which approach do you believe should be used to associate an asset with a specific entity: (i) Control; (ii) Risks and rewards; or (iii) Access to rights, including the right to restrict or deny others' access to rights?

Response--We believe "control" is the approach that should be used in defining an asset. However, the third approach (access to rights, including the right to restrict or deny others access to rights) is considered acceptable.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

Response—As long as any claim is enforceable and provides service potential to an entity, it should be considered an asset.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Response—No other requirements are necessary.

Comment 3:

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Response—It is not necessary that a past event occur as long as control exists at the present time.

Comment 4:

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Response—As long as the rights are legally enforceable, they are an asset only when those powers are exercised.

Comment 5:

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

Response—No other characteristics need to be considered.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Response—No other relevant issues need to be considered.

Comment 6:

(a) Should the definition of a liability cover all of the following types of obligations? (i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future. (ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection). (iii) Performance obligations. (iv) Obligations to provide access to or forego future resources.

Response—We believe a liability is incurred for all obligations that have an enforceable claim as long as they are "more likely than not" to occur. This includes unliquidated obligations as well as lawsuits.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Response--Yes, but the settlement date may be an event such as the death of a retiree as long as it an enforceable claim.

Comment 7:

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

Response—We believe that a specific party outside of the reporting entity needs to be identified for it to be an enforceable claim.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Response—We do not believe that constructive obligations should be recognized as a liability unless it is enforceable.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Response—We support the first approach (enforceability). However, the third approach is acceptable since non-exchange transactions should not be treated differently from exchange transactions in linking the entity and the obligation. A public sector entity cannot realistically withdraw from non-exchange transactions.

Comment 8:

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Response—We believe that a present obligation must exist and it is not contingent on the existence of a past transaction.

Comment 9:

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

Response--Obligations become liabilities only when they are legally enforceable. However, we recognize that there may be an appropriate intermediate event since all the claims and announced plans/ programs of the public sector entity may also be considered as obligations. There is also a need to apply substance over form, in that a sovereign government may be able to retrospectively amend laws to remove obligations. This is addressed in (c) below.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

Response—Yes, we believe enforceability is an essential characteristic.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Response—It does not take into consideration the sovereign power that government has. This may be relevant but does not normally need to be made explicit.

Comment 10:

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

Response—There are no other characteristics that we would propose.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Response—There are no other relevant issues that we would propose.

Comment 11:

(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?

Response—This is an extremely esoteric discussion. In most circumstances, the two approaches should yield identical results. Where there is a difference we prefer the A&L approach since it more accurately reflects their values at the end of the period (and they are more easily verified). However, both examples referred to in paragraph 4.12 illustrate the differences in the reporting of revenue under the two approaches. More examples are needed to illustrate the differences in the reporting of expenses. This is especially true of deferred outflows for pensions and derivatives. Also, we believe the example in paragraph 4.13 is a bad example of a deferred inflow and outflow. It seems to us that revenue and expense would be the same under both approaches since the revenue would be recognized when the condition (construction) is met and would not be deferred to a future period. Further, under current accounting practices, deferred revenue would be recognized at the time the tax receivable is recorded for the example in paragraph 4.16. Thus both approaches end up with the same result. There is need for example(s) that more clearly identify circumstances where the alternate approaches can yield different results. In most situation the difference is more about process than results. In addition, we do not believe that the statement in paragraph 4.21 is true since obligations under the R&E approach would also be passed on to future taxpayers just as under the A&L approach. Finally, we don't agree with the last sentence in paragraph 4.37 and suggest that it be eliminated.

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Response—The most important element in evaluating financial performance through the use of performance measures is the total cost of services provided (the expenses). No example has been shown that expenses would be misstated if the A&L approach were adopted.

Comment 12:

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

Response—We prefer to run everything through surplus or deficit rather than clutter up residual equity. It is more understandable to the less knowledgeable users of the GPFR since the Net Changes Statement is fairly straight-forward.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Response—Not necessarily. We believe that revenue should be recognized in the period when earned and expenses should be recognized in the period when incurred regardless of whether it relates to operations.

Comment 13:

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

Response—The key characteristic of the public sector is that in general revenues and expenses are unrequited. This makes application of the matching principle used in the private sector problematic and hence leads to many of the problems identified in this paper. A conceptual model for the public sector would provide a framework for resolving the issues.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Response—No other issues are considered pertinent to the conceptual framework.

Comment 14:

(a) Do deferrals need to be identified on the statement of financial position in some way?

Response—Yes, we believe that deferrals should be identified in some way on the GPFR. However, the first sentence in paragraph 5.1 applies to the R&E approach while the last sentence applies to the A&L approach. Thus, both approaches support an inter-period equity concept. In paragraph 5.2, the A&L approach also relates to their position at the end of the current period; thus, R&E is appropriately recognized. In paragraph 5.4, this Consultative Paper uses the R&E approach and the inter-period equity concept interchangeably. These terms are not the same. Where inter-period equity is used, R&E approach should be used since inter-period equity applies equally to the A&L approach.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be: (i) Defined as separate elements; (ii) Included as sub-components of assets and liabilities; or (iii) Included as sub-components of net assets/net liabilities.

Response—We believe that deferrals should be identified as separate elements on the GPFR. Further, in paragraph 5.6(b), we think current definitions of assets and liabilities already encompass deferrals and no broadening is needed. However, we could accept deferred outflows and deferred inflows as "sub-components of assets and liabilities". More illustrative examples of deferred expenses are needed.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Response—The definitions are adequate but more examples (especially deferred expenses) are needed to explain the application.

Comment 15:

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

Response—We believe that the net position represents a residual amount which should include minority interests. However, in paragraph 5.19, we think investing should be added whenever the Consultative Paper refers to operating and financing.

(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?

Response—We believe that the concept of ownership interests should relate to minority interests.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Response—No other issues need to be considered.

Comment 16:

(a) Should transactions with residual/equity interests be defined as separate elements?

Response—Such transactions need not be separately defined.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Response—If recognized, they should be relevant and reliable.

Comment 17:

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

Response--We support neutral judgment using the "more likely than not" criteria. Thus, we think that unliquidated liabilities would be recognized on the face of the financial statements since, in most cases, they are more like than not to occur.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Response—We support a neutral judgment to determine if the asset or liability should be recognized.

Comment 18:

Do you support the use of the same criteria for derecognition as for initial recognition?

Response--We support using the same criteria for both.

Comment 19:

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Response--We think that one must first meet an element definition and then meet the recognition criteria. Each stage should be separate and distinct.

4. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.851.0525.

Sincerely,

Jesse W. Hughes

ICGFM Accounting Standards Committee
Jesse W. Hughes, Chair
Masud Mazaffar
Michael Parry

N. Tchelishvili
Andrew Wynne

Cc: Linda Fealing
President, ICGFM