CNOCP

Conseil de normalisation des comptes publics

CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS

PREPARED ON AN ACCRUALS BASIS

OPINION N° 2016-02 OF 4 JULY 2016

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

MINISTÈRE DES FINANCES ET DES COMPTES PUBLICS

CONTENTS

READER'S GUIDE

The Conceptual Framework for Public Accounts is made up of an introduction, nine chapters and a glossary.

Notes have been inserted at the end of each of these sections to provide commentary, where necessary, on certain paragraphs of the Conceptual Framework or to illustrate them and explain the French institutional background to the Conceptual Framework. The sole purpose of the notes is to assist the reader.

Terms followed by an asterisk (*) are defined in the glossary annexed to the Conceptual Framework.

INTRODUCTION
USEFULNESS OF A CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS

[1] Accrual accounting(*), originally developed for presenting the financial position and performance of a business entity, is based on the recognition of rights and obligations, such that the effects of transactions and other events are recognised when they occur, and not on the date of any related cash payment or receipt. Consequently, transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate.

[2] When entities[1] within the scope of this Conceptual Framework are subject to regulations requiring them to produce financial statements on an accruals basis, they apply the recognition principle for rights and obligations.

[3] Accounting rules derive from **accounting standards**. The latter are based on **concepts,** which enable the identification of transactions and events to be recognised and the ways in which the latter are represented in the financial statements. The concepts and standards applicable to business entities are set out either in the French Chart of Accounts or in the "IFRS"[2] Conceptual Framework and standards. The elements composing the financial statements are called "assets", "liabilities", "expense", "revenue", "net assets/equity", "surplus /deficit". The financial statements[3] are a summary of these elements and include, as a minimum, a balance sheet, an income statement, notes, and possibly a cash flow statement and a statement of changes in net assets/equity.

[4] As a matter of principle, the accrual accounts of public entities are based on the accounting rules applicable to business entities except for **features specific to public action**. A precise definition of such features is necessary in order to provide a conceptual basis for their accounting treatment and may lead to the development of specific requirements. This Conceptual Framework is designed precisely to establish the link between the concepts applicable to business entities and public entities and the concepts specific to the latter. It provides the public sector standard-setter with a basis for determining the circumstances in which it is appropriate to adopt or adapt a rule applicable to business entities or whether an innovative conceptual approach is required to reflect the specific features of public action in the

[1] The entities within the scope of this Conceptual Framework are referred to as public entities.
[2] IFRS: *International Financial Reporting Standards.*
[3] See below, Chapter 8 "Presentation of the financial statements".

financial statements. This is the reason why focus has been placed on considering the specific features of public action and their sources rather than on what may be considered as “generally accepted accounting principles” with which the reader is likely to be more familiar and to which reference may be made in the above-mentioned documents.

[5] Thus the Conceptual Framework presents and clarifies the concepts underlying accounting standards, which are:

> either generally accepted accounting concepts derived from business accounting if the transactions are similar to those of business, in which case the accounting standards based on these concepts will be convergent with those of business entities;

> or concepts required by the specific features of public action. In this case, accounting standards will be developed specifically to address the transactions characteristic of public action.

[6] The formalisation of the concepts on which accounting standards are based promotes:

> the internal convergence and consistency of the set of standards;

> the understandability of the standards and assists with their interpretation;

> the understandability and interpretation of information presented in the financial statements (referred to hereafter as “accounting information” (*)).

[7] By defining the scope of accrual accounting and conversely by identifying the information excluded from it, the Conceptual Framework clarifies the benefits and limitations of accounting information, thus making it easier to understand.

Notes on the introduction

[8] *Note on accrual accounting (paragraph 1)*

Different terms with the meaning of accrual accounting are used in French, including “comptabilité d’exercice”, “comptabilité générale” (*) or “comptabilité en droits constatés”. In the public sector “comptabilité patrimoniale” is sometimes used as well. For business entities, the term “comptabilité d’engagement” (“commitment accounting”) is also used. The latter term is not used in public accounting because it might be confused with budgetary commitments.

Transactions and events recognised in the accrual accounts do not necessarily give rise to cash outflows or inflows, even if they usually do.

For the entities concerned by this Conceptual Framework, the accounting period is the financial year (*).

[9] *Note on the concept of business accounting rules (paragraph 4)*

One of the fundamental principles governing accrual accounts for public entities is that business accounting rules are applicable except for features which are specific to public action. However, the legal framework does not specify which business accounting rules should apply: it could be IFRS applicable to the consolidated accounts of companies listed on an organised market or the French Chart of Accounts applicable to their statutory accounts and to other companies.

[10] *Note on accounting information (paragraph 6)*

“Accounting information” is information provided in the financial statements.

It is a component of financial reporting which is a broader concept than accrual accounting information. The term financial reporting may be used with an extended meaning to include not only the financial statements in the strict sense but also financial analysis, financial projections, sustainability analysis, etc. – see below).

[11] *Note on the international background to the conceptual framework project*

The application of accrual accounting in the public sector is part of an ongoing European and worldwide process of harmonising accounting concepts and standards applicable to public entities: several countries have adopted a similar approach over the last few decades. In addition there is an increasing need for comparability at international level. Accrual accounting is a powerful lever for improving comparability. It is also a source of reliable data used in international discussions about public finance, in particular data for national accounts that are based on rather ancient standards and potentially subject to changes.

This Conceptual Framework takes into consideration similar projects conducted by international organisations or by the standard setters of major countries (IASB, IPSAS Board, GASB, FASAB[4]…) as well as the Conceptual Framework in the Central Government Accounting Standards Manual of 2004. It sets out a doctrine which may be relevant in other circumstances but which is primarily intended to address the accounting issues facing public entities in France.

[12] *Note on the legal basis for accrual accounting in public entities in France*

The reference to accrual accounting in the public sector goes back a long way. Without going right back to its origins, we note that the general public accounting regulation of 29 December 1962 required all the organisations to which it applied to use an accounting classification based on the French Chart of Accounts (PCG) or in some cases to actually apply the latter. Accrual accounting was subsequently introduced into the public sector by numerous laws and regulations which have progressively extended it to all public entities. We should mention the following legal sources:

> The provisions of the Constitution, article 47-2 paragraph 2*: "The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units".*

> Article 27 of the Constitutional Bylaw on Budget Acts n°2001-692 of 1 August 2001 ("LOLF") provides that Central Government keeps *"accrual accounts for all of its transactions"*, according to the requirements of Article 30.

> Article L.114-5 of the Social Security Code provides that "*the mandatory basic social security schemes and organisations that provide funding for them apply a single chart of accounts based on accrual principles"*. Accrual accounting was introduced in these organisations as from 1996.

> Order n°2012-1246 of 7 November 2012 relating to public budgetary and accounting management sets out the accrual accounting requirements for the public entities within its scope. In the same way as the previously mentioned Constitutional Bylaw on Budget Acts n°2001-692 of 1 August 2001, it provides that the accounting rules of public entities only diverge from those applicable to business entities where this is made necessary by the specific characteristics of their activity.

[4] IASB: *International Accounting Standards Board*.
IPSAS Board: *International Public Sector Accounting Standards Board*.
GASB: *Governmental Accounting Standards Board*.
FASAB: *Federal Accounting Standards Advisory Board*.

> Different codes or uncodified laws that introduce accrual accounting obligations for specific entities.

This Conceptual Framework consolidates the progress made in the introduction of accrual accounting in public entities and sets out to extend the relevant concepts to the public sector as a whole.

CHAPTER 1
ROLE AND AUTHORITY OF THE CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS

A. ACCOUNTING INFORMATION

[13] The Conceptual Framework for Public Accounts relates exclusively to **accounting information produced on an accruals basis** and presented in the form of "**accounts"** or **"financial statements."** The latter terms are considered to have the same meaning.

[14] It applies to the **separate accounts** of public entities identified as "reporting entities" (see B - *below*), as well as to the consolidated or combined accounts prepared in accordance with existing legislation, subject to the limitations set out in Chapter 9.

[15] The Conceptual Framework does not apply to other documents including or referring to accounting information, such as budget reports, management reports, reports on the sustainability of public policy or public sector performance indicators, even if these documents are based entirely or partly on accrual accounting information. In certain cases, it may be difficult to establish the borderline between the contents of financial statements and the information within the scope of these other documents. These difficulties will be resolved on a case by case basis in the relevant standards.

B. REPORTING ENTITY

[16] The Conceptual Framework for Public Accounts relates to public reporting entities.

[17] A reporting entity is an entity with separately identifiable rights and obligations, which prepares financial statements on an accruals basis either by choice or as a legal or regulatory obligation.

C. CONTENTS OF THE CONCEPTUAL FRAMEWORK

[18] The Conceptual Framework for Public Sector Accounts represents a coherent set of concepts used in the accounting standards applicable to the financial statements of public reporting entities. These concepts, which take account of the specific features of public action that have an accounting effect, relate to:

- transactions and events to be reflected in the financial statements;
- recognition criteria;
- the choice of measurement basis;
- guidance on the presentation of the financial statements.

[19] This set of concepts is defined by reference to the different possible uses of the financial statements envisaged by the Conceptual Framework. The latter also defines precisely the status and limits of accrual accounting information.

D. AUTHORITY OF THE CONCEPTUAL FRAMEWORK

[20] The Conceptual Framework is not a standard and does not define accounting rules. Its purpose is to assist:

- the Public Sector Accounting Standards Council (CNOCP), an organisation in charge of submitting accounting standards to Ministers for the entities within their area of responsibility;
- the authorities in charge of defining rules for implementing accounting standards;
- preparers of the accounts of public entities in applying accounting standards and rules;
- auditors in forming an opinion on the financial statements of these entities and in determining whether the latter comply with the standards;
- users of financial statements.

[21] The Conceptual Framework assists the standard setter in ensuring the consistency of the standards and the financial statements. It also enhances the understandability of standards for preparers, auditors and users. It may also facilitate the interpretation of standards, for example in dealing with particular circumstances or new transactions not specifically covered by existing standards.

Notes on Chapter 1

[22] *Note on the information to which the Conceptual Framework applies (paragraph13)*

The Conceptual Framework does not deal with accounting classification or bookkeeping techniques. It applies only to the contents and the presentation of the financial statements. It does not apply to budgetary, management or cost accounting or to the national accounts.

[23] *Note on the reporting entity (paragraphs 16 and 17)*

A reporting entity is usually a separate legal entity. However, it may be a separately identifiable activity within an organisation (for example, departments with financial autonomy but no legal identity).

Where a reporting entity is not a separate legal entity, elements of its financial statements are included in those of the legal entity of which it forms a part.

An entity has “accounting requirements” if it is required by legislation or regulation to produce financial statements. This obligation is not determined by the Conceptual Framework but by the relevant regulatory authorities. An entity may voluntarily produce financial statements if not obliged to do so under its legal accounting requirements.

[24] *Note on the authority of the Conceptual Framework (paragraph 21)*

In the absence of a standard dealing with a specific transaction, preparers and, where appropriate, auditors may refer to the Conceptual Framework in order to determine the appropriate accounting treatment. In such cases, because of the non-mandatory status of the Conceptual Framework, any reasoning based on or referring to the latter must be agreed by the parties to the decision.

CHAPTER 2

SPECIFIC FEATURES OF PUBLIC ACTION

A. SOURCES AND SPECIFIC FEATURES OF PUBLIC ACTION

[25] Public action is the implementation of public policies, which are an expression of the will of the people as the holder of national sovereignty. This sovereign power determines, as part of a political process, the conditions in which public entities carry out the tasks directly or indirectly bestowed upon them.

[26] The political process determines which entity is responsible for implementing a public policy, the nature and the manner of conducting the corresponding action and the resources that may be allocated to it. It attributes to an entity the rights and obligations necessary to accomplish its task.

[27] Public entities are not just economic and financial entities; they are also political entities, in the sense that their tasks are strictly regulated and defined by a political process. This strict regulation, which is essentially of a legal nature, has consequences on:

- the autonomy of public entities, and consequently:
  - on their level of responsibility,
  - on the nature of the rights and obligations bestowed upon them.
- their operating model.

[28] This Conceptual Framework therefore identifies a power, arising from sovereignty, that oversees public entities and which, by convention, it calls the sovereign power. This term is used in the rest of the document to describe the holder of sovereignty.

[29] The sovereign power has the capacity to adapt public policy to keep it in line with the financial resources it decides to allocate, in application of the principles of constitutional jurisprudence.

[30] It may, in theory at any time (subject to the application of the relevant constitutional, legislative and regulatory processes), create, eliminate or change the content of public policies as well as the organisation responsible for their implementation. This capacity is particularly extensive as long as rights and obligations have not been specifically attributed to identified public entities.

B. DISTINCTION BETWEEN THE OBJECTIVES OF THE SOVEREIGN POWER AND THE ACTION OF PUBLIC ENTITIES

[31] The identification of sovereignty as a source of particular prerogatives and specific features of the action of public entities leads us to distinguish two levels:

> that of the sovereign power, the source of community rights and public service, the public policy decision-maker, vested with different forms of political power (constitutional and legislative). The sovereign power has "powers" and "commitments" with respect to community rights which it attributes partly to public entities according to a formal process and conditions which determine the rights and obligations bestowed upon them. This applies in particular to social rights (*);

> that of public entities responsible, in varying degrees, for the implementation of public policies that translate the will of the sovereign power into acts. These entities are managers of the competence and resources attributed to them by the sovereign power and are as such accountable. The entity Central Government has a special status because it possesses the principal competence and resources, whilst remaining separate from the sovereign power and other entities (for example local authorities).

C. PRINCIPAL ACCOUNTING CONSEQUENCES OF IDENTIFYING SOVEREIGNTY AS THE SOURCE OF THE SPECIFIC FEATURES OF PUBLIC ACTION

1. Accounting status of the sovereign power

[32] It is not the purpose of this Conceptual Framework to describe the accounting principles applicable to the sovereign power. Indeed, the latter is embodied in different political processes, "commissions" different entities and does not act as an operating unit or meet the definition of a reporting entity (see above). The sovereign power is not accountable and therefore has no accounts. The notion of accounts is not relevant for the sovereign power. The accounts do not deal with powers. They deal with the management of public entities, the responsibilities of which are defined directly or indirectly by the sovereign power and which require such entities to prepare accounts representing the transactions and events affecting their financial position. These identified public entities are therefore reporting entities.

2. Consequences for accounting standards

[33] Legislation and regulations lay down the principle under which the accrual accounts of public entities are based on business accounting except for the specific features of public action. Consequently:

> Rights, obligations or transactions similar or equivalent to those of business entities, are treated in accordance with standards derived or adapted from the business sector. Transactions similar or equivalent to those of business entities consist of:
>
> - contractual transactions identical or equivalent to those of business entities, even if they have certain special features;
> - the consequences of events outside the control of the entity, and of the sovereign power, which the public entities have nevertheless to deal with, taking into consideration general legal principles.

> Rights, obligations and transactions considered specific to public action, arising from the powers and commitments of the sovereign power and whose characteristics consequently may require specific accounting treatment.

3. Definition of a going concern principle suitable for public entities

[34] The perpetual nature of sovereignty (excluding the possibility that the Nation will cease to exist, through conquest, merger or split) contrasts with the fragility of business entities which are permanently exposed to market forces. Whilst public entities may sometimes be dissolved, the rights and obligations entrusted in them by the sovereign power are not cancelled as a result, unlike business entities for which the amounts due on liquidation are limited to existing net assets. In the case of public entities, the existence of the entity is not tied to that of its rights and obligations. The latter do not depend on the existence of the entity but ultimately on the decisions of the sovereign power which may decide their transfer or in some cases their cancellation.

4. Definition of maturity criteria for the recognition of rights and obligations specific to public action

[35] As part of its prerogatives as a public authority, the sovereign power defines regulatory power and exercises it directly or by delegation to specific public entities.

[36] The legal framework (laws and regulations) applicable to all entities (public entities, business entities, associations and others), of the jurisdiction in which they are established and operate is a regulatory power. This power may impose conditions and sanctions on entities' transactions or prohibit them.

[37] The Conceptual Framework considers that regulatory powers, even if they are effectively exercised by reporting entities, are the exclusive right of the sovereign power and therefore outside the scope of the accounts.

[38] However, the Conceptual Framework defines the concepts that enable the appropriate accounting treatment to be determined for transactions, rights and obligations specific to public policy implemented by public entities.

[39] Where the sovereign power has attributed rights and obligations to the public entity specific to its mission, the **timing** of their recognition[5] in the financial statements of the entity needs to be determined i.e. when they become **rights and obligations of the reporting entity.** The Conceptual Framework for Public Accounts defines when recognition takes place in the context of the specific features of public action and of the sovereign power (see Chapter 6 on Elements and Recognition).

[40] Recognition is not based on the way in which public action is implemented, namely in kind or in cash. Indeed, the classification of the elements of financial statements (see Chapter 6) depends on the nature of the relevant rights and obligations rather than the form they take (in the form of supplies of goods or services or the payment of benefits).

[41] The definition of the concepts determining the accounting treatment of transactions, rights and obligations specific to public action ensures the internal consistency of the financial statements. To this end, the Conceptual Framework considers that the timing of the recognition of rights and obligations specific to public action in the financial statements coincides with **when they become similar or equivalent to those of a business entity.**

[42] It is the point in time when entities become **responsible for the actions** they implement and their consequences. In the case of rights or resources attributed to public entities this means they are able to use them for the purposes of their mission in normal operating conditions; In the case of obligations, this means they are actually responsible for settlement, and the obligation is enforceable[6].

D. IDENTIFICATION OF THE KEY FEATURES SPECIFIC TO THE ACTION OF PUBLIC ENTITIES

[43] The action of public entities may have specific features, which are more or less accentuated, distinguishing it from that of business entities. As an indication, the specific features most frequently encountered are set out below. It is neither a comprehensive nor a cumulative list. Accounting standards may diverge from business sector rules to accommodate a specific characteristic of public action, even if the characteristic does not feature on this list.

---

[5] Subject to meeting the definition and recognition criteria – see Chapter 6.

[6] See the definition of this concept in Chapter 6.

1. Specific features related to the nature and functions of public entities

a. Regulated autonomy

[44] Public entities are responsible for implementing public policy within the limits defined by the sovereign power. The power of decision of public entities is strictly limited by the laws defining their responsibilities.

b. Mandatory and unilateral nature of certain public decisions

[45] Many decisions taken or schemes implemented by public entities are binding for third parties, in contrast to the contractual model used by business entities which is based on a voluntary agreement between two or more parties. Public entities generally take unilateral action based on the prerogatives of a public authority.

c. Longevity of public action

[46] The related functions and missions are generally of a long term nature and take priority over the organisation in charge of their implementation. The future of these missions and the associated rights and obligations may not be tied to that of the entity in charge of their implementation. Even if a public entity disappears due to a reconfiguration or reorganisation, its missions continue, as do its rights and obligations, and are generally taken over by another structure, after a possible redefinition.

d. Importance of the budget

[47] The budget (*) is an official forecast and formal (often restrictive) authorisation. It is of particular importance for the public entities required to produce one. Generally voted by Parliament or a deliberative body or approved by an administrative authority, the budget, which presents the resources allocated to the implementation of public policies and budget implementation reports are among the most important sources of information available for a given entity.

[48] However, an important part of public action, in particular Social Security, is not determined by reference to a restrictive budget but by reference to forecast expenditure.

e. Importance of non-exchange transactions

[49] In order to implement public policy, in particular in respect of economic and social regulation, public entities may:

- exercise authorisation, control and penalisation functions;
- provide goods and services in a non-market environment, through non-exchange transactions;
- make transfers (*) in cash.

[50] A major part of public action involves the provision of benefits for which the recipient gives no equivalent consideration to the public entity. Such benefits may take the form of services, on an individual or community basis (education, defence, security…) or of transfers (sundry allowances and grants).

[51] Some of these actions rely on the solidarity principle, in particular for funding on a pay as you go basis (*).

[52] The specific nature of the functions of public entities which is more or less accentuated depending on the entity, has several implications, including:

> As in not-for-profit entities, the lack of systematic profitability objectives;

> The lack of direct relationship between the compulsory levies and the services rendered;

> The lack of allocation of income to expenditure;

> The existence of so-called specific “intervention” systems.

f. Non-transferable nature of public entities

[53] Public entities are not transferable unless they undergo a change in status. This reflects the continuing existence principle referred to in paragraph 34 *above*. This specific feature has consequences on the choice of measurement basis.

2. Specific characteristics of resources allocated to public entities and of certain of their obligations

[54] Public policies implemented by public entities are funded by compulsory levies, which apply potentially to all natural and legal persons.

[55] The specific characteristics of resources allocated to public entities result mainly from:

> the compulsory nature of the levies which represent the majority of these resources;

> the use of public property, which is subject to specific restrictions such as its inalienability or restrictions on its use;

> regulation generally through restrictive budgets (see above).

[56] The specific nature of certain obligations is related to the fact they can be unilaterally revoked, subject to the limits fixed by general legal principles, constitutional guarantees and ratified international commitments.

Notes on Chapter 2

[57] *Note on the source of public action (paragraph 25)*

Article 3 of the Constitution stipulates: "*National sovereignty shall belong to the people, who shall exercise it through their representatives and by means of referendum. No section of the people nor any individual may arrogate to itself, or to himself, the exercise thereof*". Article 73 of the Constitution authorises departments and overseas territories to set the rules applicable on their territory, subject to the limits defined in the Constitution and where applicable specified in and complemented by a Constitutional Bylaw.

According to traditional doctrine, sovereignty is considered to be an absolute power, undivided and perpetual, or the "competence of competence". Even if the absolute and undivided nature of sovereignty may be considered debatable to the extent it has been transferred to the European Union, the latter expression shows that the holder of sovereignty (the people) exercises it by attributing competence and the corresponding resources to different entities.

Consequently, public service is the common feature often used to characterise entities responsible for implementing policies decided by the holder of sovereignty.

The Conceptual Framework is an accounting document and as such it does not set out to define the concept of sovereignty to which it refers in order to define the notion of public reporting entity. The Conceptual Framework does not purport to carry out a legal analysis of the concept of sovereignty and uses existing legal concepts and those of political philosophy to determine its own argumentation in order to define the accounting principles applicable to public entities.

Although all the action of public entities is, by conception, linked to sovereignty because the sovereign power (directly or indirectly) creates these entities, defines their functions and allocates resources to them, the Framework is only concerned by the concept of sovereignty to the extent that, firstly it affects the specific nature of the action of public entities, and secondly because the sovereign power may have an influence on the accounting conventions used to represent the related specific transactions.

The Conceptual Framework defines the accounting consequences of sovereignty and in particular its capacity to create or modify the rights and obligations of public entities on a unilateral basis. The Framework recognises that certain specific transactions in the field of public action are related to rights and obligations that may be modified on a unilateral basis by the sovereign power and concludes[7] that these transactions are likely to require specific accounting treatment to the extent they are not similar or comparable to business transactions.

[7] See Chapter 6 on the definition and recognition of elements.

[58] *Note on the notion of State and the illustration of the distinction between the level of the sovereign power and that of managing entities (paragraph 31).*

The entity referred to in this context for accounting purposes is not the "State" in the political sense used in international law (a territory, a people, a political regime and the power to interact with other States), but the entity "Central Government" whose resources are described in the Budget Act. Accrual accounting sets out to represent the financial position and performance of Central Government.

The distinction between the level of the sovereign power and that of managing entities may be illustrated by the example of Parliament and the accounts of parliamentary assemblies.

> Parliament is vested with legislative powers and is at the level of "the sovereign power".

> At the level of managing entities, the accounts of the National Assembly and the Senate report on the resources employed by these institutions for their internal functioning (allowances of elected representatives, staff, use of buildings, etc.). These accounts are included with those of the reporting entity "Central Government" and do not relate to the legislative authority.

[59] *Note on the accounting status of the sovereign power (paragraph 32)*

The sovereign power has no accounts in the sense of accrual accounts. There may however be reports of a "political" nature in the everyday sense, which are of course outside the scope of the Conceptual Framework, as well as macro-economic analysis using data from the National Accounts.

[60] *Note on the notion of contract (paragraph 33)*

The notion of contract is used with its legal meaning (private or administrative contracts). It does not include management agreements between public entities which do not contain formal obligations.

[61] *Note on the distinction between benefits in kind and in cash (paragraph 40)*

Even if public policies may be implemented by the provision of benefits (to the community or individually), in kind or in cash, this Framework considers that the form (in kind or in cash) in which the benefits are provided is not an appropriate criterion for determining the relevant accounting treatment. Therefore the same accounting treatment should be adopted for the same obligation to provide education whether the latter takes the form of the provision of free education or benefits paid to households that pay the educational institution themselves.

[62] *Note on the comparison with business entities (paragraph 41)*

The accounting treatment of the rights and obligations of a business entity does not depend on their origin (legal, regulatory, or contractual) and is therefore consistent.

In the case of a public entity, it is necessary to determine the origin of its rights and obligations. If the rights and obligations arise under a contract (or similar or equivalent to a contract), they are treated in the same way as those of a business entity; otherwise, it is necessary to analyse their maturity, i.e. to determine whether they are actually held by the entity. The Conceptual Framework sets out to ensure the internal consistency of the financial statements i.e. to present elements of a comparable nature. Conversely, the juxtaposition or aggregation of non-comparable elements in the financial statements would be misleading for users.

[63] *Note on the obligations of public entities (paragraph 42)*

It is necessary to identify the effective rights and obligations that have materialised for the public entity and distinguish them from those of a general nature that appear in legislation and regulations. Although the latter may provide a basis for the citizen to make a demand on the public entity, the latter's obligation becomes effective when the citizens right has materialised with respect to its contents and become enforceable through a specific legal act of a contractual or unilateral nature.

[64] *Note on unilateral acts (paragraph 45)*

Obligations arise from the will of the parties or are provided for in law or jurisprudence. Contracts are the main source of obligations for private sector entities even if unilateral acts may exist.

Traditionally, French law does not recognise a unilateral expression of will as an obligation for the party making the commitment, even though it may have legal effects for the beneficiary. Only a formal unilateral commitment could give rise to an obligation, in which case it should be noted that if the will of a single party is sufficient to create a duty then the latter could also be cancelled in the same way and therefore does not correspond to the notion of an obligation.

The unilateral acts of public entities affect the parties concerned in two different ways:

> either these acts produce legal effects for the beneficiaries; in which case it is necessary to determine whether such acts which create rights also create an obligation for the public entity;

> or these acts create an obligation for third parties and a right for the public entity if the third parties cannot avoid their obligation.

[65] *Note on the importance of a reconciliation with the budget (paragraphs 47 and 48)*

The Conceptual Framework does not apply to the budget (included in the Budget Act for Central Government), which has its own rules, even if its preparation and implementation rely on accrual accounting data. Nevertheless, because of the importance of budget information, the Conceptual Framework takes into account the convergent and divergent aspects of accrual and budget accounting (see Chapter 4, paragraph C.2).

[66] *Note on the importance of non-exchange transactions (paragraphs 49 to 52)*

Public action often involves the provision of benefits by a public entity for which the recipient gives no equivalent consideration in exchange. There is consequently a dissociation of the payer, the provider and the recipient of a benefit. This may be achieved in several ways: the public entity may pay benefits or a grant to the recipient who then deals with the provider of the subsidised benefit, or the public entity may provide the benefit directly or indirectly, free of charge or at a price which is not economically significant.

[67] *Note on social rights (paragraph31) and the solidarity principle (paragraph 51)*

The Preamble to the Constitution of 27 October 1946 – to which the Preamble to the Constitution of 4 October 1958 refers- lays down the principles under which the Nation provides certain collective guarantees to its citizens, often called “social rights”. The Preamble provides that:

“10. The Nation shall provide the individual and the family with the conditions necessary to their development.”

“11. It shall guarantee to all, notably to children, mothers and elderly workers, protection of their health, material security, rest and leisure. All people who, by virtue of their age, physical or mental condition, or economic situation, are incapable of working shall have the right to receive suitable means of existence from society.”

These principles guide the action of public authorities, within the limits fixed by the Social Council.

The conditions for their implementation are legally defined. Thus, the first paragraph of Article 111-1 of the Social Security Code provides that: “The organisation of social security is based on the principle of national solidarity”.

National solidarity takes different forms, including the solidarity between generations which might be compared to a “fidéicommis” (*).

Pay as you go schemes, in which contributions paid in during the current period are used to fund benefits due to be paid out in the current period, are an example of national solidarity. Some contributions provide entitlement to benefits (see paragraph 68) without any guarantee as to their amount. Consequently, social rights are not a debt and as such are not due.

[68] *Note on the individual rights of persons subject to the obligation to pay compulsory levies (paragraph 54)*

Compulsory levies include all taxes and social contributions and can be differentiated according to the nature of the rights to which they give rise for the payer.

Whilst the payment of certain social contributions creates entitlement to future benefits, the latter may be subject to conditions, such as the fact that the contributor or its designated beneficiary will be in a position to claim its entitlement.

This applies to future benefits funded by the resources available in the year the benefit is due, which are subject to the insured person fulfilling the required conditions (retirement, illness, etc.).

CHAPTER 3

ENTITIES WITHIN THE SCOPE OF THE CONCEPTUAL FRAMEWORK FOR PUBLIC ACCOUNTS

[69] The entities within the scope of this Conceptual Framework possess to some extent as their main characteristic all or part of the specific features set out in the previous chapter. Consequently, they combine the following characteristics:

[70] 1. They are entities established by a political process or those set up by the before-mentioned entities and entrusted with a part of their prerogatives and missions.

[71] 2. Their main function is the implementation of public policy essentially in two ways:

a. The provision of goods and services, to the community or individually, without charge or for a price that is not economically significant (*);

b. The payment of cash benefits (monetary transfers).

The entities may in addition operate in market conditions.

[72] 3. In order to conduct their mission, these entities are mainly financed directly or indirectly by public funds (*) allocated by the sovereign power. These funds come mostly from direct or indirect income taxes or national wealth. They give rise to rights and obligations allocated to the entity.

Notes on Chapter 3

[73] *Note on the possibility of exercising a market activity (paragraph 71)*

The main function of public entities is the implementation of public policy consisting of the provision or maintenance of public goods (*).However, certain entities (such as public sector industrial or commercial establishments) may either exercise their main activity under normal market conditions, or intervene at their own initiative or at the request of the sovereign power in order to correct a structural market imbalance caused by the chronic lack of supply or demand.

[74] *Note on indicators that an entity is within the scope of this Conceptual Framework (paragraph 69)*

It is possible to identify indicators that provide evidence of whether an entity is within the scope of this Conceptual Framework and, more especially, of the standards the consistency of which depends on the Framework. The use of such indicators is intended to assist users by creating a presumption that the Framework applies and it in no way represents an alternative definition of its scope.

Public or private entities with a non-market activity funded principally by taxes and social contributions are, for example, presumed to be within the scope. In certain cases, the recipients of these benefits may make a direct but marginal contribution to their funding.

[75] *Note on the comparison between the scope of the Conceptual Framework and the CNOCP's area of competence*

As the Conceptual Framework is principles based, its scope cannot be defined by reference to a pre-determined list of entities.

The scope of the Conceptual Framework for Public accounts corresponds to the area of competence of the Opinions of the Public Sector Accounting Standards Council (CNOCP) introduced by Article 136 of the amended Budget Act for 2002, the Law n°2011-1275 of 28 December 2001. This scope should in theory cover that of government units, concept defined many years ago in the national accounts and more recently by the EU Regulation of the European Parliament and Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union, since as the parliamentary debate leading up to the creation of the CNOCP, shows the legislator intended the latter's area of competence to cover the general government sector.

However, the law establishing the CNOCP contains no reference to government units, so that certain entities may or may not be within the scope of government units and/or the CNOCP's area of competence, according to the specific laws that apply to them. This Conceptual

Framework includes within its scope "public entities" which qualify as "reporting entities", meaning they produce financial statements on an accruals basis.

CHAPTER 4

USERS OF ACCOUNTING INFORMATION AND OBJECTIVES OF FINANCIAL STATEMENTS

[76] Accounting information is not an end in itself. Consequently, the concept of user (or reader) of accounting information is fundamental to the definition of the nature and objectives of financial statements intended to meet user needs.

A. USERS OF PUBLIC ACCOUNTS

[77] In addition to meeting the needs of managers and their supervisory authorities, accounting information satisfies the requirements of external users who are not necessarily in a position to obtain directly the information they need.

[78] In addition to internal users, information users are:

> citizens and their representatives, who are clearly primary users of accounting information;

as well as:

> service recipients;

> resource providers (taxpayers insured persons or lenders);

> social partners;

> supervisory bodies;

> parties contracting with public entities;

> foreign and international public entities that deal with the French public entities.

[79] This Conceptual Framework considers that information on public accounts is potentially interesting for everybody, even for those who have no particular intention or capacity to take any action with respect to a public entity.

B. GENERAL INFORMATION NEEDS OF USERS

[80] The users of financial reporting[8] have the following information needs:

> information about the financial position and performance of a public entity;

> a report on the financial performance for the current period compared to budget or, where no budget exists, a comparison to the financial forecast adopted by the relevant authorities;

> sustainability reports for public policies implemented by the entity, financial projections, macro-economic data or information on the proper use of public funds.

[81] The involuntary nature of certain sources of public funding (taxation, mandatory social contributions) reinforces public entities' obligation to account for their use.

[82] Several different information systems may wholly or partially meet these information needs. They include accrual accounts, budget accounts (*), national accounts (*), management and cost accounts (and forecasting models based on the management accounts) as well as budgetary and financial sustainability models. Each user may adapt the use of a source of accounting information to its own requirements and combine this information with that obtained from other sources.

C. OBJECTIVES AND LIMITATIONS OF THE FINANCIAL STATEMENTS

[83] The financial statements provide users with the best possible accounting information on an entity. The quality of the information depends on its compliance with principles and rules.

1. Reporting

[84] The Conceptual Framework, which applies only to accounts prepared on an accrual basis, defines how accounting information meets certain of the information needs of the users identified above. Thus the purpose of financial statements prepared on an accrual basis is to present a true and fair view of the financial position and the performance of the public entity whose transactions, rights and obligations they portray. By providing information at the reporting date on an entity's resources and obligations (i.e. the claims of third parties to those resources), the financial statements meet a specific information need of users (the first information need set out in B above). They only directly satisfy this first need.

[85] The financial statements enable management to report on the financial position and the performance of the public entity arising from past events, over which the entity has no further influence and for which it must assume the consequences, in particular on its financial position.

[8] As stated above, this is a broader concept than accounting information

[86] It is not the purpose of the financial statements to present prospective financial information although they may be useful both for its preparation and interpretation.

[87] The financial statements contribute not only to the transparency of public accounts but also to the improvement of public management by providing information on the potential of the entity concerned (in particular through a better knowledge of its receivables and liabilities).

2. Where applicable, reconcile with budget, forecasts or other accounting sources

[88] Different systems of financial information that supplement the accrual accounts meet the other information needs of users.

[89] A reconciliation of the accrual accounts with other sources of accounting information and management tools, in particular a reconciliation of the accounting surplus/deficit with budget may provide relevant information to users. Similarly, in the case of certain entities, it may be appropriate to provide a comparison with Government Finance Statistics or the outcomes of financial projection models.

3. Precautions in interpreting the financial statements

[90] Disclosure of the type of information included and, conversely, excluded from the financial statements is useful for users.

[91] The interpretation of the financial statements requires care, particularly when assessing creditworthiness. The limitations of financial statements in no way diminish their usefulness.

[92] An examination of the changes in certain elements in the financial statements may provide useful information. For this reason, the financial statements present information for at least two accounting periods.

Notes on Chapter 4

[93] *Note on the users of public accounts (paragraphs 77 to 79)*

Firstly, it is necessary to identify the user groups for accounting information and determine whether certain user groups can be considered as “primary or principal users”.

Next the common information needs of the users should be defined.

Lastly, the Conceptual Framework determines to what extent accrual-based financial statements meet the identified needs of users. In the process, the Conceptual Framework defines the objectives of financial statements, clarifies the status and scope of the information included in the financial statements, and in other words defines what is not included.

The Conceptual Framework identifies the citizen and its representatives as primary users of the accounts. But the Framework does not allocate any particular status to the other identified users (service recipients, taxpayers, creditors…), on the basis that they all have an equal interest in public accounts. It would only be necessary to introduce a user hierarchy if the latter had accounting consequences which are not identified in the Conceptual Framework. It does, however, assume the user of the accounts possesses basic accounting knowledge.

[94] *Note on the objectives and users of the financial statements of business entities (paragraphs 80 to 82)*

The objective of business accounting is principally to measure financial performance and the creation of wealth for distribution to investors. The primary users identified by international standards of the International Accounting Standards Board (IASB) are present and potential capital providers (*), and, generally, those that deal with the entity without having direct access to its accounts (customers, suppliers…). The need for standards is deemed to arise from external communication and it is considered that if the needs of outside users are satisfied, those of internal users should be as well, given that the latter have direct access to all detailed internal information available relating to the entity.

In business accounting, there are therefore two levels of users:

> the primary external users that need information on the creditworthiness of the entity and as capital providers need to estimate the return on investment;

> the other users who have a functional relationship with the entity that gives rise to operational or counterparty risks (customers, suppliers...).

In the case of a business entity, information about the nature and amount of its resources and the claims of others to those resources may assist the user of the financial statements in identifying the financial strengths and weaknesses of the reporting entity and in particular in assessing the prospects for future cash flows. The financial statements enable an assessment to be made of the entity's liquidity and solvency, its funding requirements and the quality of the management.

Even if the financial statements of public entities are currently[9] used principally:

> either by the authorities which approve their accounts or use them to take decisions in respect of the entity;

> or by capital providers who use the financial statements to assess the nature of their risk.

As a matter of principle, the Conceptual Framework identifies citizens[10] and their representatives as the primary users of financial statements.

[95] *Note on the objectives of financial statements (paragraphs 83 to 88)*

The total rights and obligations of a person are sometimes referred to as the person's estate. In the case of an entity, the relationship between its assets, liabilities and equity as reported in its balance sheet is known as its financial position.

In order to provide a true and fair view of financial position it is necessary to define the boundaries of the reporting entity to which these rights and obligations apply, and to identify, recognise and measure them in accordance with accounting standards.

Because the accounts are fundamentally based on past events, they are not intended to provide all the information a citizen may require, such as on the efficiency of public services or the medium term sustainability of public policies. However, the accounts provide a clearly defined view of the financial position and performance of the public entity on a regular basis.

[96] *Note on the description of the scope of the financial statements (paragraphs 91 to 93)*

An understanding of the objectives of accrual accounting enables users to identify:

> The cash flows, surplus/deficit and changes in financial position for the period;

> The boundary between the balance sheet and the notes to the financial statements;

> The distinction between the financial statements and other reports which may be produced by the public entity, such as management, sustainability, and performance reports, etc.

9 2016, at the date of publication of this document.

10 Article 15 of the Declaration of Human and Civil Rights states that: "Society has the right to hold all public servants accountable for their administration."

CHAPTER 5

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

[97] The financial statements of public entities are prepared on a going concern basis[11].

[98] The financial statements are prepared in accordance with the following general principles and qualitative characteristics, without any particular hierarchy and subject to considering the constraints set out in C below.

A. GENERAL PRINCIPLES

[99] *Faithful representation*

Faithful representation is achieved where the preparers of the accounts apply faithfully the accounting rules and procedures to the depiction of transactions and events according to their best knowledge of the true nature and substance of the latter.

[100] *Compliance*

Compliance is conformity with the accounting rules and standards in force.

[101] *True and fair view*

Information gives a true and fair view of transactions and other events when it provides the user of the accounts with the best possible representation of the latter.

B. QUALITATIVE CHARACTERISTICS OF THE FINANCIAL STATEMENTS

[102] *Neutrality*

For accounting information to be neutral, its presentation must be free from bias.

[11] As explained in the chapter on the specific characteristics of the action of public entities.

[103] ### *Relevance*

Information is relevant when it is useful for the interpretation of the accounts, or for the users' decision-making, by helping them evaluate past, present or future events or correct or confirm their past evaluations. The timeliness of information, that is making it available at the appropriate time, enhances its relevance.

[104] ### *Reliability*

Reliable information is free from material error, bias and excessive uncertainty (for example, uncertainty of measurement).

[105] ### *Completeness*

The information in the financial statements must be complete, to the extent that an omission can cause the information to be false or misleading.

[106] ### *Understandability*

The information in the financial statements must be understandable by users i.e. well-defined, classified and presented in a clear and concise manner. For this purpose, users are assumed to have a reasonable knowledge of the public sector and accounting. However, information about complex matters should not be excluded from the financial statements where such information is relevant to users' needs.

[107] ### *Prudence*

Prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence must not adversely affect the neutrality of the information.

[108] ### *Comparability*

Accounting information must be comparable from one period to another to identify trends relating to the situation of the entity and enable comparisons to be made with other entities. Comparability implies the consistent use of accounting policies, measurement bases and presentation by the entity from one period to another.

[109] ### *Substance over form*

Transactions and other events must be accounted for and presented in accordance with their substance and economic and legal reality and not merely their form.

[110] *Accrual principle*

Under the accrual principle revenue and expense are recognised in the accounting period to which they actually relate, and in that period alone.

[111] *Offsetting*

Assets and liabilities are recognised separately. Assets and liabilities or revenue and expense may not be offset against one another, subject to any specific exception stipulated in a standard.

[112] *Verifiability*

Verifiability is the quality that enables users to ensure the accuracy of financial information. Information is verifiable if it is supported by valid internal or external documentary evidence.

C. CONSTRAINTS

[113] The qualitative characteristics of information are applied taking into account three constraints or limits.

1. Cost-benefit

[114] Accounting information has a cost: the benefits derived from this information should justify the cost.

2. Materiality

[115] Materiality must be considered for the presentation and classification of information in the balance sheet and surplus/deficit statement. Materiality must also be considered when determining the information presented in the notes. Information is material if its omission or misstatement could influence the judgment or decisions of the users of the accounts.

3. Confidentiality of certain operations or transactions

[116] Published accounting information is not intended to make disclosures of a genuinely confidential nature or that could adversely affect the strategic interests of the entity.

Notes on Chapter 5

[117] *Note on the going concern principle (paragraph 98)*

The Conceptual Framework is based on the assumption of the continued existence of the rights and obligations of the public entity, irrespective of what becomes of the latter. The issue of whether an entity is a going concern is relevant in the private sector in that business entities are subject to the insolvency procedures of the Commercial Code. There is no equivalent in the public sector. It is therefore considered that where a public entity is restructured or closed down, its rights and obligations are taken over with some possible modifications by the entity identified in the deed winding up its activity.

[118] *Note on general accounting principles (paragraphs 100 to 102)*

Accounting information is based on the principles set out Article 47-2, Paragraph 2 of the Constitution: “The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units”.

The Conceptual Framework proposes a definition of the principles laid down by the Constitution. The latter have an effect on the “qualitative characteristics” of financial statements defined as the attributes that make accounting information useful.

These qualitative characteristics were previously referred to as “accounting principles” in the rules applicable to certain public entities.

[119] *Note on the balance between qualitative characteristics*

Certain qualitative characteristics may overlap or even be contradictory. Hence, it may prove difficult, in the case of the notes, to reconcile the relevance and the completeness of the information provided. In fact, these two characteristics apply to different levels of information: completeness applies to the detailed recording of all events whilst materiality is taken into account in preparing the financial statements. The preparers of financial statement will need to exercise their judgment, according to the circumstances, in order to decide whether trade-offs between different characteristics are necessary to achieve the objectives of the financial statements.

The way in which the qualitative characteristics are effectively applied depends on the type of information provided. Thus in the case of verifiability:

> Information communicated which does not require judgment may be verified without risk of error by reference to documentary evidence;

> Where the qualitative information communicated is of a prospective nature or judgmental, it is verifiable when users are able to ensure that it is based on explicit, well-founded and plausible assumptions or judgments.

[120] *Note on the balance between costs and benefits (paragraph 115)*

In assessing the balance between costs and benefits, all benefits are considered (including, for example, those related to the monitoring of operations or their compliance) and not only the intrinsic value of the accounting information.

Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

CHAPTER 6

ELEMENTS AND RECOGNITION

A. ELEMENTS

[121] The elements of the financial statements are broad classes of item around which the balance sheet, surplus/deficit statement and, where applicable, the cash flow statement and the statement of changes in net assets/equity are built.

1. Asset

[122] An asset is a present resource controlled as a result of past events.

[123] A **resource** is an element with the ability to provide an inflow of service potential or an economic benefit.

> **Service potential** is the capacity to provide goods and services, individually or to the community, enabling a public entity to fulfil its missions.

> An **economic benefit** ultimately consists of cash inflows or the reduction of cash outflows.

[124] The public entity **controls the resource** if it has the ability to use its service potential, for its own benefit or for that of third parties, or its economic benefits. This ability usually arises from ownership rights or rights of use stipulated in legislation.

[125] To meet the definition of an asset and determine when a public entity acquires control of a resource, it is necessary to identify a transaction or a past event.

2. Liability

a. Definition

[126] A liability is a present obligation of the public entity arising from a past event which it can only settle by an outflow of resources.

b. Determining whether the criteria defining a liability are met

[127] According to the nature of the present obligation, the criteria defining a liability may, or may not, be considered by reference to business accounting. Two situations may arise:

> The obligation is similar or equivalent to an obligation of a business entity;

> The obligation is specific to public action.

The obligation is similar or equivalent to an obligation of a business entity

[128] The obligation is similar or equivalent to an obligation of a business entity because it is:

> A contractual or similar obligation, or

> The result of provisions which cannot be unilaterally modified because of the limits fixed by general legal principles, constitutional guarantees or ratified international commitments[12].

[129] In this case, the existence of the obligation and the unavoidable outflow of resources are assessed in the same way as for a business entity. There is no specific characteristic that could justify a special accounting treatment. Consequently, an obligation similar or equivalent to an obligation of a business entity is a liability of a public entity provided it meets the other criteria for the definition of a liability. If not, it may be a contingent liability of the public entity (see below).

The obligation is specific to public action

[130] **The obligation is specific to public action** when it arises under legal or regulatory provisions which only apply to public action, including unilateral administrative decisions giving rise to rights exercised in application of legal or regulatory provisions**.**

[131] In this case, business accounting does not provide a reference for the appropriate accounting treatment. This Conceptual Framework proposes, in these circumstances, to examine the maturity of the obligation in order to determine if, at a point in time, the sovereign power, which is the source of the obligation, no longer has the ability to modify it: it is then similar or equivalent to an obligation of a business entity and receives the same accounting treatment. At this point in time, the obligation specific to public action effectively becomes an obligation of the public entity and the other definition criteria for a liability apply (i.e. the existence of a past event and the unavoidable nature of the outflow of resources to settle the obligation).

[132] An obligation specific to public action becomes a liability when it is **enforceable on the entity** responsible for the action.

[12] See Chapter 2 above on the specific characteristics of public action and their accounting consequences.

[133] The obligation becomes enforceable, when it loses the original characteristics specific to public action and becomes similar or equivalent to an obligation of a business entity and may be treated as such without adversely affecting the internal consistency of the financial statements of the public entity.

[134] An obligation specific to public action becomes enforceable on the public entity when all the following conditions are met:

> the obligation relates to a defined benefit;

> the recipient is clearly identified and declared;

> its settlement date is known;

> all the conditions establishing the entitlement to benefits from the public entity have been met[13].

[135] Until an obligation specific to public action becomes enforceable, it remains a sovereign commitment, which is not eligible for recognition in the financial statements.

[136] Thus, the sovereign commitment under public service policy to provide, subject to certain conditions, free or virtually free social benefits, in kind or in cash, is not recognised in the financial statements, although it may be considered for the sustainability report.

c. Lack of specific constructive obligations for public entities

[137] Public entities are set up to exercise responsibilities which are clearly defined by a legal or regulatory framework, and their capacity to make commitments in the specific field of public action is strictly regulated and therefore cannot by definition give rise to constructive obligations.

[138] Public entities do not therefore have liabilities or contingent liabilities arising from **constructive obligations (*) specific to public action.**

3. Net assets or equity

[139] Net assets are the arithmetical difference between assets and liabilities.

[140] Net assets and equity are equivalent although the notion of equity is not relevant for Central Government.

[13] The existence of a recognising event is dealt with in the section on recognition.

[141] For entities with a share capital (in the form of securities), equity represents a residual interest in the net assets of the public entity. This interest is a right to its assets that does not meet the definition of a liability.

[142] For entities with an initial capital allocation (in the form of securities or not), and possible additional allocations, these contributions correspondent to the consideration for the goods and resources issued to the public entity to enable it to perform its mission. The characteristics of these initial and additional allocations determine the nature of the consideration and rights of the capital providers and the provisions for transferring the latter on winding up.

[143] The main components of equity are:

> the initial or additional allocations made by the founding entity or another entity, less amortisation corresponding to the depreciation of assets funded by these allocations or decided by the relevant authority;

> the share capital where applicable;

> accumulated surpluses and deficits brought forward in net assets/equity.

4. Revenue, expense, surplus and deficit

a. Revenue

[144] Revenue is an increase in assets or a decrease in liabilities for the period, other than those relating to direct capital contributions.

Public entities, and principally Central Government, have specific sources of sovereign revenue arising from compulsory levies (*) or the allocation of amounts arising under these levies.

b. Expense

[145] An expense is a reduction in assets or an increase in liabilities for the period, other than a reduction relating to capital.

c. Surplus or deficit

[146] Revenue and expense are recognised[14] and presented in the surplus/deficit statement. The difference between revenue and expense is the surplus or deficit for the period.

[14] In accordance with the recognition criteria set out in Part B below.

B. RECOGNITION

1. Definition of recognition criteria

[147] An element is recognised when it meets both of the two following criteria:

> Its recognising event has occurred;

> It can be reliably measured.

[148] If an element does not satisfy all the recognition criteria it is not recognised. However, it may be disclosed in the notes.

[149] Reliability of measurement is a recognition criterion applicable to all elements.

[150] The recognising event criterion varies as follows according to the type of element.

[151] **Recognition of an asset**

An asset is recognised when the public entity obtains control.

[152] **Recognition of a liability**

A liability specific to public action is recognised when it is enforceable by the creditor on the public entity.

A non-specific liability is recognised when it is a present obligation which can only be settled by an outflow of resources.

[153] **Recognition of revenue**

Revenue is recognised in the surplus/deficit statement when it is earned by the public entity.

[154] **Recognition of an expense**

The recognising event for an expense is either the performance of a service[15], the occurrence of a loss or the materialisation of a risk.

In the case of intervention expense, the service is considered to be performed when the beneficiary has fulfilled, or continues to fulfil during the current accounting period, all the conditions necessary to establish entitlement to the benefit.

[15] This notion is defined in the standards, where applicable, by type of expense.

2. Derecognition

[155] An element is derecognised when it no longer meets the combined recognition criteria.

C. CONTINGENT ASSETS AND LIABILITIES

[156] Certain of the rights and obligations of the public entity do not meet all the definition criteria for an element. Others are elements but do not meet all the recognition criteria. They may be contingent assets or liabilities of the public entity, in which case they may be disclosed in the notes.

[157] A contingent asset is a potential resource arising from past events the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the entity.

[158] Contingent liabilities include:

- either potential obligations of the public entity towards third parties that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;
- or an obligation of the public entity towards a third party where it is not probable or certain that the obligation will give rise to an outflow of resources.

Notes on Chapter 6

[159] *Note on the definition of an asset (paragraph 122)*

By using the term “present” the definition indicates that the resource exists (presently), at the accounting date. The term is used to ensure consistency with the definition of a liability, based on the concept of a “present obligation”. In addition, the introduction of this term in the definition of an asset clarifies the distinction between an asset and a contingent asset.

[160] *Note on service potential or economic benefit (paragraph 124)*

Service potential benefits the public entity or a third party, in accordance with its mission or purpose.

The economic benefit flows necessarily to the public entity. Where the economic benefit flows also to a third party it belongs to the latter and is separate.

[161] *Note on control, related to the ability to use the service potential or economic benefit (paragraph 125)*

The ability to use the service potential or economic benefit may be demonstrated by the right to:

> determine the nature and manner of use of the resource, in accordance with the public entity’s mission, in particular that of prohibiting, restricting or constraining the use of the resource for its own benefit or that of a third party;

> use the resource to settle an obligation;

> to exchange it for another resource.

The issue is to determine whether the public entity has this ability, irrespective of whether or not it actually exercises it. Therefore, the fact that the entity chooses not to exercise its ability (which it could do at any time) does not affect the existence of control.

Determining the manner of use may imply defining the way other entities use the service potential embodied in the resource.

There are individual indicators used to determine whether the public entity controls a resource, such as legal title or the fact that the public entity has access to the risks and rewards associated with the use of the resource. However, the use of legal title as an indicator of control requires caution, as control may be exercised without having ownership of the resource and the other way round. Ownership does not systematically give rise to control.

Where appropriate, these indicators are set out in the standards on a non-exhaustive basis.

[162] *Note on control of a resource by a public entity (paragraph 126)*

The issue of control illustrates the distinction between the level of the sovereign power and the rights of the public entity, for example:

> The power to raise taxation and public property in general are prerogatives of the sovereign power specific to the public sector;

> Taxation receivables or rights to the profits derived from operating public property are resources which may in principle be controlled by public entities and as such form part of their assets.

The power to raise taxation is a prerogative of the sovereign power which can be transferred to public entities in the form of a right to raise taxation. This right is not perpetual; it exists when it is effective in law and is enforceable.

Public property is a common resource with a potential profitability. The sovereign power may grant rights over these profits. Public entities may be the beneficiaries of such rights and exercise them directly or by delegation.

The timing of the acquisition of control by a public entity is identified by reference to an event providing evidence of the availability of service potential or an economic benefit.

[163] *Note on the definition of a liability (paragraph 127)*

The identification of a liability does not require an examination of all the obligations of the public entity, only those that meet all the criteria of the definition, i.e.

> To be an obligation of the public entity;

> To be present, i.e. exist at the accounting date; the entity cannot avoid it;

> Arise from a past event;

> That can only be settled by an outflow of resources.

The fact that an obligation is enforceable in a court of law is an indicator of its present existence.

[164] *Note on constructive obligations (paragraphs 138 and 139)*

Business entities may recognise a liability under a constructive obligation where there is a risk that non-compliance with the latter may affect the survival of the entity.

This risk does not apply to the sovereign power or the public entities the latter has created directly or indirectly. The survival of a public entity is unrelated to the continuance of the rights and obligations attributed to it.

Whilst the Conceptual Framework does not recognise the existence of constructive obligations specific to public action, it does not exclude the possibility that obligations similar or equivalent to those of business entities might be of a constructive nature.

[165] *Note on other resources and other obligations*

In certain exceptional circumstances, in order to meet the objectives of financial statements, standards may require resources and obligations to be recognised even if they do not meet the definition of assets and liabilities under the terms of this Conceptual Framework. In this case, these "other resources" and "other obligations" should be presented separately from assets, liabilities and equity. These "other resources" and "other obligations" are usually referred to as deferred elements.

[166] *Note on the interpretation of net assets and equity (paragraphs 140 to 144)*

Because of the sovereign power behind the policy implemented by public entity, the amount of the entity's net assets is not in itself an indicator of its capacity to honour its obligations. Negative net assets are not necessarily the sign of bad management. If the amount of net assets is difficult to interpret, the trend over several accounting periods may provide useful information to the users of the financial statements.

[167] *Note on the significance of surplus or deficit (paragraph 147)*

The surplus or deficit is more or less meaningful according to the public entity concerned. It may have little relevance where the revenue and expense recognised for a period are unrelated, but where the management rules fixed by the sovereign power, or the entity to which it has attributed its regulatory powers, require revenue and expense to balance out; it may be a meaningful measure of economic performance. This applies for example to the social sphere. The surplus or deficit indicates whether revenue and expense for the period are in line with one another. The surplus or deficit is therefore a relevant indicator for schemes funded on a pay as you go basis.

Standards and the related accounting rules may clarify the meaning (or lack of meaning) and significance of the surplus or deficit.

[168] *Note on recognition criteria (paragraphs 148 to 155)*

The Conceptual Framework distinguishes recognition criteria from those included in the definition of the elements. Recognition is in effect the second logical step in accounting. As it takes place after identification of an element, it enables any related uncertainties to be considered:

> Either because it cannot be reliably measured;

> Or even because there is uncertainty about fully satisfying the definition criteria (for example about controlling the resource for an asset or the probability of an outflow of resources for a liability).

In these circumstances, it may be a contingent element, which will be recognised in a later period when the recognition criteria are met.

[169] *Note on the notion of recognising event (paragraph 148)*

The recognising event for the accrual accounts may be different to that of the budget accounts.

The recognising event for each element is defined in the relevant standards, as this issue is of particular importance in the public sector because of the number of specific transactions, such as non-exchange transactions. It is therefore important to define when they are recognised. The recognising event also provides a means of distinguishing a liability from a disclosure to be made in the notes.

[170] *Note on contingent assets and liabilities (paragraphs 157 to 159)*

The term “off-balance sheet commitments received” is sometimes used to describe “contingent assets” and “off-balance sheet commitments given” is sometimes used to describe “contingent liabilities”.

It should be noted that, as for business entities, if the existence of an obligation depends on future events not within the control of the entity, the obligation is not recognised in the balance sheet; it is a contingent liability.

CHAPTER 7

MEASUREMENT

[171] Measurement bases determine the amount at which elements are stated on initial recognition and at each subsequent reporting date.

[172] They must be consistent with the objectives of the financial statements of public entities and comply with the qualitative characteristics and constraints of accounting information.

[173] Measurement bases may be classified in two categories:

> Historical cost;

> Current value, which may be:

- market value[16],
- value in use for assets and settlement value for liabilities, which are entity specific valuations.

A. MEASUREMENT OF AN ASSET

1. Measurement on initial recognition: determination of the entry value of an asset

[174] The entry value of an asset is its cost.

[175] The cost is the amount of cash and non-cash consideration given to control an asset. It includes all the costs attributable to the asset, corresponding to the costs incurred during the period of acquisition.

[176] In particular well-defined circumstances, where the proposed measurement basis would not satisfy the qualitative characteristics required of accounting information, the standard may provide for measurement of the asset on initial recognition at a token or fixed amount, at an amount estimated by a valuer, at depreciated replacement cost or at another value.

[16] Sometimes called "net selling price". A concept very similar to "fair value" in IFRS 13 : "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

2. Measurement at the reporting date

[177] At the reporting date an asset is generally measured at its entry value after deducting, as appropriate, accumulated depreciation and impairment.

[178] A standard may provide for other measurement bases at the reporting date, including:

> Market value: The amount which could be obtained, at the reporting date, for the sale of an asset in a transaction carried out at normal market conditions, les costs to sell[17].

> Depreciated replacement cost: value based on an estimation of the cost of replacing the asset by a similar asset with an identical service potential.

> Token or fixed amount in clearly identified circumstances.

B. MEASUREMENT OF A LIABILITY

[179] On initial recognition and at subsequent reporting dates, a liability is generally measured at its “settlement amount”, discounted or not as applicable. Settlement amount is an estimation of resource outflows required to settle the obligation. This applies in particular to debts intended to be held to maturity.

[180] The measurement basis for obligations specific to public action is determined by the relevant standards.

[181] In particular well-defined circumstances, the standard may provide for other measurement base, including market value.

C. MEASUREMENT OF REVENUE AND EXPENSE

[182] An expense is measured as the increase in a liability or the decrease of an asset to which it relates. Revenue is measured as the increase in an asset or the decrease of a liability to which it relates.

D. CHOICE OF A MEASUREMENT BASIS

[183] The choice of a measurement basis authorised by a standard is conditioned by the quality of the information provided in the financial statements after considering the cost of producing it.

[17] Costs to sell are the incremental disposal costs directly attributed to the disposal of an asset, with the exception of interest and income tax expense.

Notes on Chapter 7

[184] *Note on cost (paragraph 175)*

Cost may take the following forms:

- acquisition cost if the asset is acquired for valuable consideration;
- production cost if the asset is produced by the public entity;
- net carrying amount in the case of transfers made free of charge between public entities;
- market value in the case of other acquisitions made free of charge.

CHAPTER 8
PRESENTATION
OF THE FINANCIAL STATEMENTS

[185] The Conceptual Framework applies to the separate accounts of public entities and the possible combinations[18] of these accounts.

A. COMPONENTS OF FINANCIAL STATEMENTS

[186] Financial statements prepared on an accruals basis are presented at least once a year. They make up an indissociable set comprising:

- A statement of financial position or balance sheet;
- A surplus/deficit statement;
- Notes.

[187] The financial statements may also include:

- A cash flow statement;
- A statement of changes in net assets/equity.

[188] The financial statements are presented in accordance with the structure determined in the standards.

B. PRESENTATION OF THE FINANCIAL STATEMENTS

[189] The statement of financial position or balance sheet may be presented in table or list format. A clear distinction between liabilities and equity is required.

[190] The surplus/deficit statement is presented, in table or list format, by nature or by function. The presentation option adopted for the notes (by nature or by function) may be different to that used in the surplus/deficit statement.

18 This situation is dealt with in Chapter 9 “Consolidation and combination of reporting entities”.

[191] The notes, which form an integral part of the financial statements, provide supplementary information and commentary on the elements recognised and where necessary on contingent elements, if the latter are material.

[192] The standard may, where appropriate, define simplified presentation requirements for public entities with low materiality.

CHAPTER 9

CONSOLIDATION AND COMBINATION OF REPORTING ENTITIES

[193] Each public reporting entity prepares and publishes accounts according to the relevant standards applicable to it.

[194] Under the legislation applicable to public entities, accounts combining several reporting entities may be prepared and published in the following cases:

> Where a public entity, which is a reporting entity, controls another reporting entity, consolidated accounts may be presented.

A public entity may exercise control over an entity in different ways, for example by the power to govern the financial and operating policies of the entity for the purposes of implementing public policy. The controlling entity's rights usually have a legal basis. They usually take the form of the power to obtain the majority of voting rights in the management board of the controlled entity.

The standards provide a definition of control, and of the controlling entity and set out the conditions, scope and procedures for consolidation.

> Where, as a result of an agreement or regulations, two or more separate entities have the same management board, common departments, missions or activities, on an extensive and lasting basis, and this organisational model reflects a common interest and a common technical and financial approach, combined accounts may be presented.

The standards set out the conditions, scope and procedures for combination.

[195] Consolidation and combination both give rise to a reporting entity, which is the result of the consolidation or combination. However, the aggregated accounts of entities with common characteristics, but without common control or interests, are not those of a new reporting entity.

Notes on Chapter 9

[196] *Note on the limits of consolidated and combined accounts(paragraph 196)*

The definition of control or combination criteria applicable to business entities are not suitable for the preparation of accounts for the public sector as a whole, or even for specific subsets or subsectors which constitute neither a consolidated nor a combined entity. This document does not investigate the possibility of composing such entities in particular by including certain prospective information as this issue requires further research.

GLOSSARY

Accounting information

Information provided in the accounts or financial statements that is prepared on an accruals basis.

Accrual accounts

The accrual accounts present all the transactions affecting financial position and performance.

They are based on the accrual principle.

Budget

The budget is an Act that provides for and authorises income and expenditure. Where appropriate, it provides for and authorises jobs and expenditure commitments.

Budget accounts

The budget accounts provide a record of actual expenditure compared to budget authorisations, and of authorised revenue, presented in the form required by the budget (commitment authority, cash-based appropriation, revenue received, etc.).

They provide a record of the use of budget appropriations, and where applicable, of staff available to the authorising officer, in accordance with the specific budget allocation.

The budget accounts have a structure facilitating a comparison between authorisation and implementation.

Capital provider

A capital provider makes funding available to an entity in the form of a repayable loan or a capital gift or contribution which entitles the capital provider to an interest in the share capital of the entity.

Compulsory levies

Compulsory levies are all taxes and social contributions raised by government units and European institutions.

The payments made by contributors (natural persons and legal entities) are involuntary, in that the latter chose neither the amount nor the conditions for making these payments and receive no direct consideration in exchange.

The notion of compulsory levies is not a legal definition. It is based on the national accounts which by convention exclude certain transactions.

Public finance classifies the different types of compulsory levy (general taxation, social contributions and certain taxes related to the provision of public services) according to their allocation:

- General taxation: levied on all taxpayers, which is allocated to Central and local government spending.
- Social contributions levied on behalf of social security organisations, which are allocated to the provision of social benefits as a whole. Some contributions give rise to entitlement to benefits.
- Specific taxes related to the provision of public service: levied on private individuals and business entities for the provision of goods and services, the value of which is not directly related to the amount of the tax paid (for example: local infrastructure tax).

The name of the tax does not necessarily give a precise indication of the class to which it belongs. For example, value added tax (TVA) is in the class of general taxation.

Constructive obligation

A constructive obligation – a concept not applicable to obligations specific to public action – is an obligation which, although it is not the result of legal provisions, regulations or a contractual arrangement, derives from the past practice of the entity, its published policy or a sufficiently specific public commitment to act in a certain manner which have created a valid expectation on the part of other parties that it will accept certain responsibilities.

Financial year

The financial year is the period covered by the financial statements. Except in the case of a start-up or a closure this is a 12 month period. It normally coincides with the calendar year.

Fidéicommis

The fidéicommis is a testamentary provision under which a testator requires its inheritor to retain property and return all or part of it to a designated person either at a given date or subject to a given condition.

According to its current meaning, the fidéicommis is a wish expressed in a will which does not have legal force, whereby the testator leaves it to the conscience of the parties concerned to carry out the wish.

Government unit

This notion was originally introduced by the national accounts.

EU Regulation N° 549/2013 of the European Parliament and of the Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union gives the following definition (paragraph 20.06): "*Government units are legal entities established by political process which have legislative, judicial or executive authority over other institutional units within a given area. Their principal function is to provide goods and services to the community and to households on a non-market basis and to redistribute income and wealth."*

This EU Regulation defines the general government sector as follows: "*The general government sector (S.13) consists of all government units and all non-market non-profit institutions (NPIs) that are controlled by government units. It also comprises other non-market producers (…)".*

National accounts

National accounts provide an accounting framework for the presentation of data relating to an economy and the economic agents that compose it.

The rules applicable to national accounts are set out in EU Regulation N° 549/2013 of the European Parliament and of the Council of 21 May 2013 relating to the European system of national and regional accounts in the European Union (ESA 2010). This regulation is an adaptation for the European Union of similar requirements established under the auspices of the United Nations Organisation.

Non market activity

According to the National Institute of Statistics and Economic Studies (INSEE), "*A unit is considered to render non market services when it provides them free of charge or at prices which are not economically significant. These service activities are found in education, health, social work and administration."*

A price is considered to be “not economically significant” when it has no-or little- influence on the quantities the producer is prepared to supply and only a marginal effect is expected on demand.

Not economically significant price

See “Non market activity”.

Pay as you go basis

The pay as you go basis refers to schemes in which contributions paid in during the current period are used to fund benefits paid out in the current period.

Public funds

Public funds or the funding resources of public entities, referred to in the Constitution are used for the implementation of public policies. They include:

- compulsory levies (see above),
- other public funds.

Other public funds consist mainly of:

- revenue from government assets (property, investments, other assets and rights);
- assets disposals;
- grants, in cash or in kind, made by other public entities;
- industrial and commercial revenue;
- remuneration for services rendered;
- royalties;
- support funds;
- gifts and bequests;
- loans.

Public goods

In economics, public goods are goods and services of which the use is “non-rivalrous” and “non-excludable”, meaning that the consumption of the goods by one individual does not reduce their availability for consumption by others (non-rivalrous) and individuals cannot be effectively excluded from consuming the goods (non-excludable).

As the consumption of a public good cannot be individualised, there is no market price or market.

The public goods concerned by this Conceptual Framework are either public goods by nature or goods and services to which this characteristic has been attributed (for example National Education).

Social right

Right granted by the nation enabling individuals to obtain benefits which are usually of a social nature. It is distinguishable from a debt which is enforceable by the creditor. As such, social rights relate to the collective guarantees provided by the sovereign power which guide public policy without necessarily and systematically giving rise to liabilities in the accounts of public entities.

Transfers

Social transfers in kind (source: INSEE)

"Social transfers in kind correspond to individual goods and services supplied to households, whether the said goods and services were purchased on the market by government units or by NPISH[19], or whether they were produced by them (non-market production).

They therefore include both:

> social benefits in kind which fall into the category of social protection, i.e. goods and services supplied directly by government units (housing benefit for example) and those that beneficiary households buy themselves and then have reimbursed (medication, healthcare);
> and transfers of individual non-market goods and services produced by government units or by NPISH, particularly education and health."

Transfers according to the Constitutional Bylaw on Budget Acts of 1 August 2001

Transfers in respect of intervention expenditure form part of the budgeted expenditure of Central Government and include transfers to households, to businesses, to local and regional authorities, to other authorities and losses relating to the exercise of guarantees.

Version published 10 February 2017

19 NPISH: Non-profit institutions serving households.

Conseil de normalisation
des comptes publics