



**COLLEGE**

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16<sup>th</sup> January, 2014

Classification of IPSAS standards  
Conclusions of the CNOCP working party  
on IPSAS assessment

## Executive summary

The objective of the following document is to provide an in-depth review of IPSASs in the context of the future development of EPSASs, as well as to set out the position of France with respect to the use of IPSASs as a reference or, as it has been put more recently, as a starting point.

This document is based on the preliminary assessment carried out in France in June 2012 with a view to the IPSAS Task Force meeting in July 2012. It proceeds from a wider consultative group of French interested parties and the conclusions reached are fully consistent with those previously developed when discussions were at their very beginning in France.

The main conclusions reached by the working party are summarised below.

From the Commission classification published on 6 March 2013, a number of standards are classified as “*standards that might be implemented with minor or no adaptation*”. The present review shows that most of those standards address issues that are of low importance to the public sector.

Some critical issues for the public sector are not addressed, namely expenses and social benefits. The fact that the European Commission itself felt the need to issue European Union accounting rule n°3, a standard specific to *Expenses and Payables*, appropriately reflects the current gaps in IPSASs.

For the above reasons, the CNOCP believes that IPSASs are of little use if they fail to address properly major issues for the public sector: this backs the idea that the exhaustive lists of standards that should form the core EPSASs should be carefully designed from the outset of the project.

Finally, it has come to our attention that regulation n°966/2012 of 25 October 2012 on the financial rules applicable to the general budget of the Union does not mention IPSASs in Title IX - PRESENTATION OF THE ACCOUNTS AND ACCOUNTING: the words used to describe possible references to existing accounting literature are “*based on internationally accepted accounting standards for the public sector*” in Article 143. In addition, it is clearly stated that “*The accounting officer may diverge from those standards if he or she considers this necessary in order to give a true and fair view of the assets and liabilities, charges, income and cash flow.*”

For the reasons listed above, the French government is strongly opposed to a European regulation that would mention IPSASs in any text implementing a harmonised set of standards for the public sector.

## Background

The starting point for this Public Sector Accounting Standards Council (CNOCP or the Council) project was the implementation of the EU Directive 2011/85/EU of the 8th November 2011 on requirements for budgetary frameworks for Member States. Article 16-3 of this Directive includes a requirement to assess the suitability of International Public Sector Accounting Standards (IPSAS) for Member States by the 31st December 2012 at the latest.

To fulfil this requirement, on the 6th March 2013 the European Commission published a report to the European Council and to the European Parliament entitled “*Towards the application of harmonised public sector accounting standards in Member States – The suitability of IPSASs for Member States.*”

In this report, the Commission sets out to examine in greater depth the introduction of European public sector accounting standards, known as EPSASs. EPSASs should, according to the Commission, use IPSASs as a “starting point”, and the Commission has therefore gathered the comments previously made by Member States on the applicability of IPSASs and classified these standards into three categories:

- Standards that might be implemented with minor or no adaptation;
- Standards that require adaptation before implementation ;
- Standards that require amendment for implementation in Europe.

Since the publication of this report, there have been ongoing discussions about the governance model for a European public sector accounting standard-setting organisation.

A first review of IPSASs, carried out by the Eurostat Task Force in 2012, enabled the Commission to classify IPSAS’s into the three categories set out above.

The Council’s objective is to carry out a more detailed review and make specific comments with a view to developing EPSASs.

## The CNOCP's approach

A detailed review of each IPSAS standard was carried out. On the basis of this review, an analysis was carried out with regard to:

- The principles set out in the Central Government Accounting Manual (RNCE) and the future accounting manual for government-funded institutions in order to identify any differences in accounting principles,
- Those IFRS undergoing changes in order to identify the corresponding potential impact on IPSASs, in view of the IPSAS Board's proposed convergence policy with IFRS,
- National accounting standards where differences were identified.

The Council assessed the applicability of the requirements of each standard to Central Government and to government-funded institutions. The resulting comments are designed to form the basis of a communiqué to the Commission.

The applicability of the requirements at local level or to the social security sector was not examined in detail; these subjects are considered as belonging to the long term agenda. The currently tightly integrated budgetary and accounting rules applicable at local level in the public sector are under review; in addition, the number of local accounts (170 000), certain of which relate to very small organisations, plead in favour of appropriate, simplified standards. As far as the social security sector is concerned, although the accounting principles are accrual-based, the issues related to social liabilities and commitments require examination in depth.

In addition to assessing the applicability of IPSASs in France and identifying possible improvements with a view to developing EPSASs, the CNOCP also wished to identify the public sector-specific subjects which are not currently addressed by IPSASs.

This note sets out the basis for the CNOCP's classification of IPSASs into the categories decided by the European Commission (see appendix). The position of France is set out for each standard, according to the classification by topic of the Commission (Appendix 2.1 of the working document accompanying the report dated the 6<sup>th</sup> March 2013). The topics and the standards have been dealt with in the same order as in the table.

## **Position of France standard by standard**

The analysis of the IPSAS Board's set of standards strengthens the CNOCP's position that it should not be possible to use IPSASs as the sole starting point for developing the European public sector accounting standards.

Following on from this analysis, the CNOCP underlined the absence of standards in IPSASs on critical issues for the public sector:

- social benefits as provided by social security, and more specifically pension scheme issues other than State civil servants' on the one hand, and other social benefits on the other hand ;
- transfer expenses such as subsidies and grants, other than social benefits.

Three further matters were also identified as topics that call for standards: entity combinations in the public sector, historical and cultural assets and emission trading schemes.

Additionally, two-third of IPSASs requires adaptation or amendments for implementation in Europe. Amongst the most controversial standards are those dedicated to consolidation and financial instruments.

Eventually, only a third of IPSASs raises very few comments, and those standards deal with very minor financial items.

The Council carried out a detailed review of the Commission's classification of the standards<sup>1</sup> into the three categories mentioned earlier and made specific comments with a view to developing EPSASs.

In addition to the above-mentioned topics, the group believes it is necessary to develop a body of standards specifically for small entities, considering the number of local accounts that exist in France.

### **Presentation of financial reporting**

#### **IPSAS 1 – Presentation of financial statements**

The CNOCP believes that IPSAS 1 needs amending.

The Council would like to see a clear definition of the notion of net assets/equity applied consistently throughout IPSASs; this would help to clarify the circumstances under which items qualify for recognition in net assets /equity.

The notion of surplus or deficit used in IPSAS 1 also requires clarification in order to ensure that the concept takes into account the specific features of the public sector: it is less about reporting unrealised profits and losses than disclosing the balance of transactions.

Lastly, the Council notes that the budgetary aspects are not within the remit of the IPSASB.

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<sup>1</sup> See table in appendix

### IPSAS 2 – Cash Flow Statements

The CNOCP has no particular comments on this standard.

However, the CNOCP suggests that the production of cash flow statements by small entities with a cash-based budget may result in duplication and their relevance should, in this case, be reconsidered. The CNOCP proposes a statement of sources and application of funds as a possible alternative.

### IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors

The CNOCP has no particular comments on this standard.

### IPSAS 18 – Segment Reporting

The CNOCP believes that this standard should be more flexible and better adapted to the public sector.

The Council is in favour of bringing this standard into line with IFRS 8 *Operating Segments* which would allow public entities (Central government, government-funded institutions, etc.) flexibility in the way they publish segment information.

### IPSAS 20 – Related Party Disclosures

The CNOCP believes that IPSAS 20 requires adaptation.

The Council would in particular raise the issue of the relevance of related party disclosures in the public sector. For instance, wherever a central government provides financial support for public entities, related party information based on the private sector disclosures should be adapted if they are to be useful.

### IPSAS 22 – Disclosure of Financial Information about the General Government Sector

The CNOCP notes that this standard should be abandoned.

The Council believes that this standard raises conceptual and practical difficulties, in particular with respect to the scope of consolidated entities; the Council suggests that research should continue on the articulation and possible convergence between the scopes for the General Government Sector and for consolidated entities.

### IPSAS 24 – Presentation of Budget Information in Financial Statements

The CNOCP believes that this standard should be abandoned.

The CNOCP notes that budgetary rules are outside the remit of the IPSASB. A disclosure of the reconciliation between the accounting surplus or deficit and budget would be sufficient.

## **Income and expenditure**

### IPSAS 4 – The Effects of Changes in Foreign Exchange Rates

The CNOCP has no particular comments on this standard.

### IPSAS 9 – Revenue from Exchange Transactions and IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers)

The CNOCP believes these two standards require adaptation.

The CNOCP proposes in particular a clarification of the respective scopes of IPSAS 9 and IPSAS 23.

The Council is not in favour of the balance sheet approach adopted in IPSAS 23: this approach is inconsistent with the approach adopted for IPSAS 9 and has little relevance for the public sector.

### IPSAS 11 – Construction Contracts

The CNOCP has no particular comments on this standard, except for any possible effects of the subjects mentioned for IPSAS 9 and IPSAS 23.

## **Employee Benefits - IPSAS 25**

The CNOCP has concluded that IPSAS 25 requires adaptation.

The CNOCP is in favour of investigating whether State civil service pension schemes should be classified as defined benefit or defined contribution schemes. Indeed, at first sight, the features of these schemes might require an alternative classification, with an appropriate accounting treatment different to those currently proposed in IPSAS 25.

The Council also notes that the scope of IPSAS 25 is limited in that it does not address social benefits in general. In certain cases, these social benefits reflect a distribution policy specific to the public sector and an appropriate dedicated standard is required.

## **Consolidation**

### IPSAS 6 – Consolidated and Separate Financial Statements, IPSAS 7 – Investments in Associates and IPSAS 8 – Interests in Joint Ventures

The CNOCP concluded overall that the three standards dealing specifically with consolidation require amendment for application in Europe. The main public sector issue relating to these consolidation standards is the notion of control.

## **Financial Position**

### **IPSAS 5 – Borrowing Costs**

The CNOCP considers that this standard should be amended with a view to its application in Europe, mainly because of the options available that allow borrowing costs relating to qualifying assets to be either expensed or capitalised. Indeed, the Council supports the treatment of borrowing costs as an expense, in consistency with the conceptual framework for the accounts of public entities which is currently being developed in France.

Moreover, the CNOCP has taken note of the change in IAS 23 *Borrowing Costs* intended to eliminate the recognition of borrowing costs as an expense. The CNOCP's position is that a similar change to IPSAS 5 as part of the convergence policy with IFRS would be inappropriate.

### **IPSAS 12 – Inventories**

The CNOCP has no particular comments on this standard.

### **IPSAS 13 – Leases**

The CNOCP has no particular comments on this standard.

The CNOCP notes the changes proposed by the IASB in its project revising IAS 17 *Leases*. The main change proposed by the IASB relates to the view that all leases, whatever their characteristics include an asset and a liability; consequently, the distinction operating / finance leases would be eliminated.

The Council believes that these changes are inappropriate in that they make the analysis and accounting treatment of leases more complex in the public sector; the Council believes the distinction operating / finance leases reflects a simple pragmatic approach and should, therefore, be maintained.

### **IPSAS 14 – Events after the reporting date**

The CNOCP has no particular comments on this standard.

The CNOCP notes that IPSAS 14 includes the elements related to the notion of going concern drawn from IAS 10 *Events after the reporting period*.

However, the Council notes that, in the public sector, mergers, de-mergers restructuring etc. are common without there being any effect on the going concern basis. Therefore it would be worth mentioning that the going concern principle does not have the same defining influence in the public sector.

### IPSAS 17 – Property, Plant and equipment and IPSAS 16 – Investment Property

The CNOCP considers that these standards need adapting, especially in respect of the practical difficulty of implementing the component approach in the cost model, which is the preferred model in the public sector.

### IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets

The CNOCP concluded that IPSAS 19 needs adapting in order to clarify the distinction between liabilities to be recognised in the balance sheet and those to be disclosed in the notes, in particular with respect to social benefits and transfers which are specific to the activity of the public sector. To that effect, the Council underlines the current lack of IPSASs dealing with the latter and the need to develop specific standards on these two important topics.

### IPSAS 21 – Impairment of Non-Cash Generating Assets and IPSAS 26 – Impairment of Cash Generating Assets

The CNOCP concluded that IPSAS 21 and IPSAS 26 require adaptation.

The CNOCP raises the issue of whether two separate standards are required for the public sector, given that the distinction between cash generating and non-cash generating assets is a question of judgment and is somewhat arbitrary.

### IPSAS 27 - Agriculture

The CNOCP has no particular comments on this standard.

### IPSAS 31 – Intangible assets

The CNOCP concluded that IPSAS 31 requires adaptation.

This is because the CNOCP considers that the specific features of the public sector are not fully dealt with, in particular with respect to the exercise of sovereign rights.

### IPSAS 32 – Service Concession Arrangements: Grantor

The CNOCP concluded that this standard requires adaptation.

The CNOCP questions the recognition of a non-financial debt in IPSAS 32, as compared to other accounting frameworks which require the recognition of the difference between the initial amount of the financial debt and the value of the concession asset in net assets/equity.

Thus, the CNOCP proposes broadening the issue and developing the concept of net assets/equity in the specific context of the public sector within the conceptual framework, whilst underlining the consequences due to the fact that it is by nature a residual amount. In addition, the Council considers that the standard should take account of the diversity reflected in the different types of concession arrangement obligations.

## **Financial Instruments – IPSAS 28-30**

### **IPSAS 28 – Financial Instruments: Presentation, IPSAS 29 – Financial Instruments: Recognition and Measurement IPSAS 30 – Financial Instruments: Disclosures**

The CNOCP concluded that the IPSASs relating to financial instruments require amending.

This is because international standards are designed first and foremost for the banking and insurance sectors and are therefore not suitable for the financial transactions of the public sector, to the extent they deal with very complex transactions which have no equivalent in the public sector.

In order to develop EPSASs, the CNOCP recommends developing specific standards tailor made for the public sector to provide relevant and appropriate information.

## **Appendix: Summary of the position of the CNOCP in relation to the classification of the European Commission**

### **Set out in its report dated 6th March 2013 on the applicability of IPSASs in Member States**

- Ten standards for which the CNOCP's position is more severe than that of the Commission :
  - *IPSAS 1 Presentation of Financial Statements*
  - *IPSAS 5 Borrowing Costs*
  - *IPSAS 7 Investments in Associates*
  - *IPSAS 8 Interests in Joint ventures*
  - *IPSAS 9 Revenue from Exchange Transactions*
  - *IPSAS 16 Investment Property*
  - *IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets*
  - *IPSAS 22 Disclosure of Financial Information about the General Government Sector*
  - *IPSAS 24 Presentation of Budget Information in Financial Statements*
  - *IPSAS 32 Service Concession Arrangements: Grantor*
- One standard for which the CNOCP's position is less severe than that of the Commission :
  - *IPSAS 13 Leases*
- Twenty standards with the same classification

Standards to be implemented with minor or no adaptation		Standards requiring adaptation before implementation		Standards that require amendment for implementation in Europe	
EU <sup>2</sup>	CNOCP	EU	CNOCP	EU	CNOCP

Presentation of financial reporting						
IPSAS 1 — Presentation of Financial Statements	x				x	
IPSAS 2 — Cash Flow Statements	x	x				
IPSAS 3 — Accounting Policies, Changes in Accounting Estimates and Errors	x	x				
IPSAS 10 - Financial Reporting in Hyperinflationary Economies	x	x				
IPSAS 18 - Segment Reporting			x	x		
IPSAS 20 - Related Party Disclosures			x	x		
IPSAS 22 - Disclosure of Financial Information about the General Government Sector			x			Abandon
IPSAS 24 - Presentation of Budget Information in Financial Statements			x			Abandon

<sup>2</sup> <Source> Appendix 7.1 of Commission staff working document accompanying the report from the Commission on the suitability of IPSAS for the Member States – 6 March 2013

Standards to be implemented with minor or no adaptation		Standards requiring adaptation before implementation		Standards that require amendment for implementation in Europe	
EU	CNOCP	EU	CNOCP	EU	CNOCP

<b>Income and expenditure</b>						
IPSAS 4 - The Effects of Changes in Foreign Exchange Rates	X	X				
IPSAS 9 - Revenue from Exchange Transactions	X			X		
IPSAS 11 - Construction Contracts	X	X				
IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers)			X	X		

<b>Employee Benefits</b>						
IPSAS 25 - Employee Benefits			X	X		

<b>Consolidation and Controlled Entities – under revision</b>						
IPSAS 6 - Consolidated and Separate Financial Statements					X	X
IPSAS 7 - Investments in Associates			X			X
IPSAS 8 - Interests in Joint Ventures			X			X

Standards to be implemented with minor or no adaptation		Standards requiring adaptation before implementation		Standards that require amendment for implementation in Europe	
EU	CNOCP	EU	CNOCP	EU	CNOCP

<b>Financial Position</b>						
IPSAS 5 - Borrowing Costs	X					X
IPSAS 12 - Inventories	X	X				
IPSAS 13 - Leases		X	X			
IPSAS 14 - Events after the Reporting Date	X	X				
IPSAS 16 - Investment Property	X			X		
IPSAS 17 - Property, Plant, and Equipment			X	X		
IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets	X			X		
IPSAS 21 - Impairment of Non-Cash-Generating Assets			X	X		
IPSAS 26 - Impairment of Cash-Generating Assets			X	X		
IPSAS 27 - Agriculture	X	X				
IPSAS 31 - Intangible Assets			X	X		
IPSAS 32 - Service Concession Arrangements: Grantor	X			X		

<b>Financial Instruments</b>						
IPSAS 28 - Financial Instruments: Presentation					X	X
IPSAS 29 - Financial Instruments: Recognition and Measurement					X	X
IPSAS 30 - Financial Instruments: Disclosures					X	X
<b>TOTAL CNOCP</b>		9		13		9

## **Projects in progress and non-authoritative recommendations:**

### **IPSAS Conceptual Framework**

As part of the Ipsas Conceptual Framework project, the IPSASB published the first four chapters of the Conceptual Framework in January 2013:

- Chapter 1 *Role and Authority of the Conceptual Framework*
- Chapter 2 *Objectives and Users of General Purpose Financial Reporting*
- Chapter 3 *Qualitative Characteristics*
- Chapter 4 *Reporting Entity*

In addition, the draft Preface to the Conceptual Framework is available on the IPSASB's website in the form of a *preliminary view* of the Board.

The CNOCP expressed strong reservations, in particular in relation to the proposed definition of a liability. The phases "Elements and Recognition", "Measurement" and "Presentation" are nevertheless still under discussion.

### **Recommendations**

For the record, the IPSASB also published two documents with the status of recommendations in 2013:

- Recommended Practice Guideline 1 *Financial Statement Discussion and Analysis*
- Recommended Practice Guideline 2 *Reporting on the Long-Term Sustainability of an Entity's Finances*

The CNOCP expressed its disagreement on the publication of these two documents. This is because they contain requirements which go beyond the scope of general accounting and are therefore outside the remit of the standard-setter.