MINISTÈRE
DE L'ÉCONOMIE
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Le Président

Conseil de normalisation des comptes publics

Paris, April 12, 2022

Mr Ross Smith
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to ED81, *Conceptual Framework Update: Chapter 3,* Qualitative Characteristics *and Chapter 5,* Elements in Financial Statements

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on ED81, Conceptual Framework Update: Chapter 3, *Qualitative Characteristics* and Chapter 5, *Elements in Financial Statements* published in February 2022 (ED81).

As a general comment, we would like to take the opportunity of this consultation to bring to the attention of the Board our concern over convergence with IFRS at conceptual level. While we agree on convergence at standard level for similar transactions, we believe that at conceptual level such convergence may undermine the critical awareness that public sector overall operates in a very different way from the private sector. To illustrate our point, we would refer to the introduction of the rights-based approach. While we understand that this approach is aligned with the newly developed right-of-use approach in IPSAS 43, *Leases*, we would also like to point out that in the public sector, entities are accountable for physical assets used to serve the public and they report on their operational capacities, rather than on their financial capacities. This is because when it comes to tangible assets, performance in the public sector is less about financial performance and return on investments to shareholders than it is about quality of public action towards citizens. Further, while we appreciate the attempt to mitigate such concern with the reference to the concept of unit of account, we believe that the Conceptual Framework for the public sector should emphasise the importance of reporting on whole physical assets when serving the public interest, and then only allow for a

Phone: + 33 1 53 44 23 69
E-mail: michel.prada@finances.gouv.fr
Conseil de normalisation des comptes publics
5, place des Vins-de-France
75012 Paris
France

reference to a rights-based approach in those limited circumstances where reporting on financial performance provides higher quality information in the public interest.

On the same line of thoughts, we believe that the irrelevance of the rights-based approach for a majority of public sector operations may also arise when the Board later discuss the concept of capital, and more specifically that of physical capital maintenance[1]. We are of the view that the rights-based versus physical asset approach and the concept of physical capital maintenance are tightly connected. We would therefore recommend that the two notions should be dealt with in one same project so that the knock-on effects of the rights-based approach in the public sector could be addressed appropriately and thoroughly across the financial statements.

Other than the above comment, we would broadly agree on the other proposed changes to the IPSASB Conceptual Framework, but for the few remarks presented in the appendix.

Yours sincerely

Michel Prada

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[1] See paragraph 8.3(b) of the IASB's Conceptual Framework

APPENDIX

Specific Matter for Comment 1: Prudence

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A- BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

We fully agree with paragraph 3.14A that well highlights the role of prudence in supporting neutrality and the correct assessment and reporting of assets and liabilities, rather than factoring in consequences of uncertainty in an arbitrary way, especially where liabilities are concerned. Looking at the IASB's Conceptual Framework, we actually understand that "cautious prudence", as in paragraph BC2.39 of the IASB's Conceptual Framework, is actually what is referred to in paragraph 3.14A and is rightfully addressed as helping achieving neutrality in applying accounting policies.

Conversely, paragraph 3.14B seems less relevant to us. It brings in asymmetry which is not an accounting concept in itself and could be understood in various ways. We would therefore alert the IPSASB on mixing the concept of prudence with the notion of symmetry. While we are aware that the Conceptual Framework is not primarily destined to preparers, we believe that that paragraph as currently worded could be considered cryptic, hence confusing. We also get that it is a copy of paragraph 2.17 of the March 2018 IASB Conceptual Framework, but we strongly believe that it has to make sense to constituents first prior to converging with IFRSs.

Further, we found that we had to look at the IASB's Conceptual Framework for an explanation of what paragraph 3.14B was really about. Paragraph BC2.37(b) of the IASB's Conceptual Framework actually refers to the notion of "asymmetric prudence" and explains that it refers for instance to expenses being recognised at an earlier stage than income would be. Then, paragraph BC2.42 states that asymmetric prudence cannot be systematically required for it may conflict in some instances with relevance and faithful representation. For that reason, the IASB eventually decided that the notion should not be included in the 2018 IASB Conceptual Framework.

We would therefore recommend, that should paragraph 3.14B be retained, the IPSASB should envisage clarifying from the outset what asymmetric prudence is about and why it cannot in itself illustrate a qualitative characteristic or an accounting principle.

Specific Matter for Comment 2: Obscuring information as a factor relevant to materiality judgements

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgements. The reasons for this addition are in paragraphs BC3.32A and BC3.32B.

Do you agree with the addition of obscuring information to factors relevant to materiality judgements? If not, why not?

We agree with this addition.

Specific Matter for Comment 3: Rights-based approach to a resource

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC.5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

We believe that the additions of paragraphs 5.7A to 5.7G to Chapter 5 of the IPSASB Conceptual Framework are critical, especially paragraphs 5.7E and 5.7F that explain that an asset's related rights are often treated as a single unit of account that is a single asset. This is indeed highly operational in the public sector where a physical asset dedicated to the service of the public needs to be reflected as a whole. This was actually one of the major improvement on cash basis accounting, being able to track and follow-up on physical assets and associated amortisation and replacement costs. We do think that reporting on a physical asset as a whole is more relevant for public sector specific operations than reporting on the various rights its legal ownership may give rise to.

In that sense, we would like to share our experience with respect to referring to a whole physical asset instead of to separate right assets. In our jurisdiction, we found accounting for individual rights arising from operating a physical asset difficult to implement for a number of reasons. First, because when public sector entities are accountable for a physical asset, reporting to citizens has to be grounded on that specific physical asset. Also, from a macroeconomic viewpoint, when a physical asset is the source of economic or service potential flows, reporting by different entities on separate rights relating to that physical asset is highly onerous in terms of keeping track of the information. Therefore, to avoid complexity for our public sector entities, we adopted the view that there should be a rebuttable presumption that physical assets are single units of account and should be accounted for as such. This is actually the rationale behind our decision to not follow the rights-based approach in IPSAS 43 for lessees, and rather to retain the IPSAS 13 approach.

In addition, should the introduction of the rights-based approach be retained, it seems to us that consequences of this introduction should be further elaborated on. For instance further guidance would be useful to allow for consistently identifying when the physical object should be considered as a whole versus when the set of rights that the physical object may give rise to should be considered separate assets. We believe that this is a cross-cutting issue that would be well addressed in the Conceptual Framework so as to help enhancing consistency across standards. Finally, it could be useful to explain in the Basis for Conclusions that the newly introduced rights-based approach is presumed not to affect the description of control in the Conceptual Framework, as well as to assess whether there could be consequences on indicators of control in individual standards.

Lastly, we would like to point out a minor drafting point in paragraph BC5.3D: we would appreciate if the IPSASB could clarify the end of the last sentence, as we struggle to understand what “a separate phenomenon persuasive” could mean.

Specific Matter for Comment 4: Definition of a liability

The revised definition of a liability is in paragraph 5.14:

> A present obligation of the entity to transfer resources as a result of past events.

The reasons for the revised definition are in paragraphs BC5.18A-BC5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

The updated wording seems fine to us.

Specific Matter for Comment 5: Guidance on the transfer of resources

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A-BC5.19D.

Do you agree with this guidance? If not, how would you modify it?

We agree on the proposed changes.

Specific Matter for Comment 6: Revised structure on guidance on liabilities

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.17D. Paragraphs BC5.18H explains the reasons for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

We welcome the restructuring that enhances internal consistency.

Specific Matter for Comment 7: Unit of account

The IPSASB has added a section of Unit of account in paragraphs 5.26A-5.26J. The reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.

Do you agree with the addition of a section on Unit of account and its content? If not, how would you modify it and why?

We agree that this section is critical, especially with a view to mitigate the impact of the introduction of the rights-based approach for operations involving physical assets that are specific to the public sector. We believe that this objective should be clearly mentioned as such.

Specific Matter for Comment 8: Accounting principles for binding arrangements that are equally unperformed

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of account. The explanation is at paragraphs BC5.36D-BC5.36F.

Do you agree that:

(a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so
(b) Such guidance should be included in the Unit of account section, rather than in a separate section?

If you do not agree, please give your reasons.

We understand that the additional paragraphs on binding arrangements that are equally unperformed address current practice, and that does not seem to be called into question. Additionally, situations at stake are not transactions specific to the public sector, so we believe that it would be relevant only in limited instances. Also, in the context of standard-setting, we note that the projects on Revenue and Transfer Expenses that may refer to such binding arrangements have not been fully completed yet. For all these reasons, we are struggling to see what conceptual problem the Board is trying to solve here; hence we are wondering whether such addition is really necessary.

Should guidance on binding arrangements that are equally unperformed be retained, we would recommend that there should be a reference to executory contracts at least in the BCs to tie back to the IASB's Conceptual Framework. Lastly, we would appreciate if paragraphs 5.26G and 5.26H could be explained more clearly. This is because references to "combined right and obligation to exchange resources" and "the terms of the exchange are currently favourable" in the context of an arrangement where "both parties have partially fulfilled their obligations to an equal extent" is highly confusing when applied to transactions in the public sector.