

Rome, January 31st, 2006

Philippe Adhémar,
Chairman
International Public Sector Accounting Standards Board
IFAC
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Re: Exposure Draft: Proposed International Public Sector Accounting Standards – Accrual Basis, Improvements to International Public Sector Accounting Standards

Dear Mr. Adhémar,

The Italian accountancy profession, represented by the Consiglio Nazionale dei Dottori Commercialisti (CNDC) and the Consiglio Nazionale dei Ragionieri (CNRPC), is pleased to submit its comments on the Exposure Draft: Proposed International Public Sector Accounting Standards – Accrual Basis, Improvements to International Public Sector Accounting Standards.

The current ED started a very important process of review that involves a series of issues relevant to many public companies; for this reason, this review deserves the most careful examination. CNDC and CNR strongly support IPSASB's improvement project as it aims at: fixing high-quality accounting standards for the public sector, determining a consolidated procedure at an international level, and allowing different countries – also belonging to the same regional areas, such as the European Union – to produce an even more comparable and understandable financial reporting.

In this regard, we herewith wish to propose some general considerations:

- As previously stated, IPSASs are inspired by IASs/IFRSs. However – as previously highlighted – in some circumstances we deem appropriate to supplement the technical instructions with some exemplifications that can help the accounting provisions better fit the specific public companies milieu;
- We do not share the choice – that seems to have been confirmed so far – of presenting the qualitative characteristics as an appendix to IPSAS 1. A modification to paragraph 18 (Preface) as well as the realization of a separate Framework should be considered.

By attaching our comments to ED26 we hope to provide a fruitful contribution to the development of the Exposure Draft.

We are open to discussion on any aspect of the letter.

Yours sincerely,

Mr. Antonio Tamborrino
President of CNDC

Mr. William Santorelli
President of CNRPC

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1 PRESENTATION OF FINANCIAL STATEMENTS

Question 1

Do you agree that IPSAS 1 should be revised as proposed to converge with the equivalent IAS 1 (December 2003)?

General comments

On a general basis, we do agree with the changes made to IPSAS 1. These are consistent with project of convergence to IFRSs and they contribute to the creation of an overall transparency climate between the managed board on the one side and the relevant public on the other. We particularly appreciate the request for a comparison between the budget and the statement schemes when the latter are issued following the same criteria for accounting data (§ 24). This practice provides useful information on the trustworthiness of the financial statements as well as on the consistency between the appointed objectives and the results obtained. Moreover, these provisions shall be consistent with the contents of the project *Presentation of Budget Information in Financial Statements*. Furthermore, we do share the integrations supplied for the concept of ‘going concern’. However, We do not share the choice – that seems to have been confirmed so far – of presenting the qualitative characteristics as an appendix to IPSAS 1. A modification to paragraph 18 (Preface) as well as the realization of a separate Framework should be considered.

The Committee should also consider the opportunity of making some changes that can better take into account the peculiarity of public companies, as per the following specific comments.

Specific comments

We do support the clarification concerning the explanation of the ‘fair presentation’ concept. Various legal accounting orders recognize the ‘true and fair view’ concept as a general budget clause and, in order to pursue it, they also think that some derogations from the implementation of specific provisions are acceptable.

We think that such a possibility should be explicitly made compatible in the IPSAS (§ 27 and following). We believe that the implementation of such an option is of particular significance for the public sector. The option in fact guarantees correct background information; also, it compels the managing bodies to present data that need to reflect the company’s actual standing. Thus, the stakeholders shall be more guaranteed.

With reference to the marking aspects, we deem necessary to introduce some additional considerations over the concept of assets and liabilities, both ‘current’ and ‘non-current’. This classification, mentioned by IAS 1 (2003), might take on a different significance within the field of public sector. If a public entity has certain ‘political’ needs or if it must align with the strategic decision of a higher public authority to partially modify its activity or to make its structure comply with international security standards (even though this was not requested by the law), some of its activities might need to be divested. Although other activities might have limited circulation, they might still need to be kept within the entity because of some management decisions that do not necessarily correspond to economic interest criteria. The same applies to the liabilities.

For this reason, we advise to add at least one paragraph for assets and liabilities. This could take these circumstances into account while pushing towards the inclusion, among assets (§ 76) and liabilities (§ 80), of some goods which would have a different history if they were classified according to market decisions.

Eventually, we deem important to also directly include into IPSAS 1 some additional considerations on the concept of ‘accrual basis’. With regard to the imputation of revenue and expenditures, this concept needs further consideration. Indeed, in the public sector the proceeds are not necessarily linked to the completion of the economic cycle; in the same way, not all the expenditures follow an economical choice expressly aimed at the interest and the opportunity to produce a good or provide a service.

Question 2

The proposed IPSAS 1 does not include a definition of the term “extraordinary items”, and does not require nor prohibit the presentation of items of revenue and expense as “extraordinary items” either on the face of the statement of financial performance or in the notes.

Do you agree that extraordinary items should not be defined and their presentation either on the face of the statement of financial performance or in the notes should not be explicitly required or prohibited?

We share the non-explicit elimination of extraordinary revenues and expenses, although they are not expressly provided. At the same time, this choice seems consistent with the process of convergence with IASs/IFRSs.

In case the extraordinary items category is not listed in the statement, we believe that IPSASB might highlight it in the notes. These revenue items might be very relevant in the public sector as they sometimes arise from choices other than those taken by the managing bodies and – as earlier mentioned – they might just be based on strategic and political reasons. In this context, we believe it will be necessary to request that these choices’ economical effects are indicated in the notes.

In order for the public entities to align this concept with the one in force in their own systems, and to make their IPSASs compliant financial statements as comparable as possible with the financial statements drafted according to national laws, we believe that no specific definition should be indicated. In this case, if the financial statements list any extraordinary items it is important to evaluate whether IPSAS 1 should request the indication of the definition used for the classification of these elements.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 3
ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS**

Question 1

Do you agree that IPSAS 3 should be revised as proposed to converge with the equivalent IAS 8 (December 2003)?

In the frame of a required process of convergence, we agree with the modifications of IPSAS 3. In particular, we share the choice of eliminating the prospective approach when carrying out accounting policy changes.

This process would however be reinforced if there were an autonomous framework, drafted by IPSASB and consistent with the one adopted by IASB. This would also contribute to the IPSASs' overall consistency, as IPSASs cannot currently be read unless referring to the IASB Framework; this, in our opinion, weakens the overall image.

Concerning the extraordinary items, please refer to our consideration on IPSAS 1.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES**

Question 1

Do you agree that IPSAS 4 should be revised as proposed to converge with the equivalent IAS 21 (December 2003)?

We agree with the changes made to IPSAS 4, in the frame of a required process of convergence.

Question 2

Currently, IPSAS 4 does not deal with hedge accounting for foreign currency items other than the classification of certain exchange differences accounted for as a hedge of net investment in a foreign entity. It also notes that guidance on such types of transactions can be found in IAS 39, "Financial Instruments: Recognition and Measurement".

Do you agree that the proposed IPSAS 4 should not apply to derivative transactions and balances that are within the scope of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments (see paragraph 3(a))?

We agree that, where certain operations are not frequent nor relevant in the world of public companies, we can refer to the accounting standards of a different standard-setter, consistently with the provisions contained in paragraph 26, IPSAS 3.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 6
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

Question 1

Do you agree that IPSAS 6 should be revised as proposed to converge with the equivalent IAS 27 (December 2003)?

We agree with the changes of IPSAS 6, in the frame of a required process of convergence.

We appreciate the definition of control and the related guidelines contained in paragraphs 28-42.

Question 2

Do you agree that in the investor's separate financial statements, investments in controlled entities, jointly controlled entities and associates should be accounted for either:

(a) at cost, or

(b) as financial instruments in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments?

Alternatively, do you agree that these investments should be accounted for as investments as specified in the existing IPSAS 6 (see paragraphs 58 and 61 in the proposed IPSAS 6 and paragraph 53 in the existing IPSAS 6)?

We agree that, where certain operations are not frequent nor relevant in the world of public companies, we can refer to the accounting standards of a different standard-setter, consistently with the provisions contained in paragraph 26, IPSAS 3.

Question 3

Do you agree that a list of significant controlled entities should be disclosed in the controlling entity's consolidated financial statements (see paragraph 62)?

We totally agree.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 7 INVESTMENTS IN ASSOCIATES

Question 1

Do you agree that IPSAS 7 should be revised as proposed to converge with the equivalent IAS 28 (December 2003)?

We share the changes made to IPSAS 7, in the frame of a required process of convergence.

Question 2

Do you agree that the scope of this proposed IPSAS 7 should not apply to certain investments that otherwise would be associates held by venture capital organizations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with the relevant international or national accounting standard dealing with financial instruments (see paragraph 1)?

We share the suggested approach. However, we believe that the financial statements disclosures should mention the cases in which IPSAS 7 should have been applied, as well as the economical effect originating when the 'fair value' is applied instead of the equity method.

Question 3

Do you agree that an investor need not equity account its investment if all the criteria in paragraph 19 are met?

We do agree, also in order to maintain a coherent approach with IPSAS 6.

Furthermore, we believe that it can be useful for public entities to state which are the reasons that brought them to have a remarkable influence on the associates, in order to determine whether this influence aims at pursuing an institutional goal, at protecting public interest or, on the opposite, if it is to be considered an investment.

**International Public Sector Accounting Standard IPSAS 8
Interests in Joint Ventures**

Question 1

Do you agree that IPSAS 8 should be revised as proposed to converge with the equivalent IAS 31 (December 2003)?

We agree with the changes made to IPSAS 8, in the frame of a required process of convergence.

Question 2

Do you agree that the scope of this proposed IPSAS 8 should not apply to certain investments that otherwise would be joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with the relevant international or national accounting standard dealing with financial instruments (see paragraph 1)?

We share the suggested approach. However, we believe that the financial statements disclosures should mention the cases in which IPSAS 7 should have been applied, as well as the economical effect originating when the 'fair value' is applied instead of the equity method.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 12 INVENTORIES

Question 1

Do you agree that IPSAS 12 should be revised as proposed to converge with the equivalent IAS 2 (December 2003)?

We agree on the changes made to IPSAS 12, in the frame of a required process of convergence.

Question 2

It is proposed that biological assets related to agricultural activity and agricultural produce at the point of harvest that are accounted for in accordance with the relevant international or national accounting standard dealing with agriculture are excluded from the scope of the proposed IPSAS 12. Do you agree with this exclusion (see paragraph 2(c))?

We overall share the idea that the agricultural products should be measured as a net fair value of the costs estimated at the time of sale (their fair value minus estimated point-of-sale costs at the point of harvest).

We need to highlight that, in many geographical or juridical domains, public companies are entitled to own or directly manage the production of agricultural products. In this framework, we believe that it can be useful to refer to the accounting methods existing both at an international and at a national level (e.g., IAS 40, Biological asset), whose aim is to record biological assets, from the initial recognition through the point of harvest.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 13 LEASES

Question 1

Do you agree that IPSAS 13 should be revised as proposed to converge with the equivalent IAS 17 (December 2003)?

We share the changes made to IPSAS 8, in the frame of a required process of convergence.

Question 2

The proposed IPSAS 13 should not be applied as the basis of measurement for biological assets held by lessees under finance leases and biological assets provided by lessors under operating leases that are accounted for in accordance with the relevant international or national accounting standard dealing with agriculture. Do you agree with these exclusions (see paragraph 2(c) and (d))?

We do agree with these exclusions, consistently with our comment on the IPSAS 13 revision (see above).

We would also like to pinpoint that the current version of IPSAS 13 lacks the comparative information in regards to its equivalent IAS 17.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 14 EVENTS AFTER THE REPORTING DATE

Question 1

Do you agree that IPSAS 14 should be revised as proposed to converge with the equivalent IAS 10 (December 2003)?

We share the changes made to IPSAS 13, in the frame of a required process of convergence.

However, the problems related to the subsequent events might be of particular relevance for the evaluation of the operations of public companies. Therefore, in the presence of strong links between the public company's ordinary activity and a specific sector's regulation system (for example, public companies offering public services) – and without an *ad hoc* standard concerning Commentary management – we suggest to add an extra point to the disclosures, in order to request the highlighting of any subsequent event which can be significant for the sector the company works in, and which could modify or influence the company's activity (for example, the emanation of a rule concerning limitations to the activity, the increase of taxes on combustible goods, etc.).

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 16
INVESTMENT PROPERTY**

Question 1

Do you agree that IPSAS 16 should be revised as proposed to converge with the equivalent IAS 40 (December 2003)?

We share the changes made to IPSAS 16, in the frame of a required process of convergence.

Furthermore, the corrections made seem to be very consistent with the changes made to the other IPSAS and they therefore also seem to be very important and required.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 17 PROPERTY, PLANT AND EQUIPMENT

Question 1

Do you agree that IPSAS 17 should be revised as proposed to converge with the equivalent IAS 16 (December 2003)?

We share the changes made to IPSAS 17, in the frame of a required process of convergence.

Question 2

Do you agree with the inclusion of Implementation Guidance 1 on the frequency of revaluation of property, plant and equipment in the proposed IPSAS 17 (see paragraph 49 and Implementation Guidance 1)?

We do believe that the Implementation Guidance provides added value to the standard. However, the text should include further indications regarding areas of interest that are specific to public companies, referring especially to those sources that may determine potential value loss, such as the impact of political trends (among the external factors) and the interest in maintaining the abovementioned public company's employment level (among the internal factors), in order to provide answers – just like Implementation Guidance 2 - as to how the IPSAS provisions could be tangibly applied to the public company's realities.

Question 3

Do you agree that it is appropriate to require public sector entities to depreciate separately each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item (see paragraphs 59-61)?

We agree on the introduction of the «component approach» because public sector companies are often in possession of large real estate goods, that host other goods of particular ?????.