



Accounting Standards Board

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
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Per e-mail

30 November 2015

Dear John,

COMMENT ON THE EXPOSURE DRAFT 56 ON *THE APPLICABILITY OF IPSASs*

We welcome the opportunity to comment on the Exposure Draft 56 (ED 56) on *The Applicability of IPSASs*.

Overall, we are supportive of the changes proposed to IPSASs and RPGs in ED 56. A number of general issues were however identified by our stakeholders. These issues, together with our proposals are reflected in the response to the specific matter for comment. These are included as Annexure A to this letter.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating our comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Poggiolini'.

Jeanine Poggiolini

Technical Director

Board Members: Ms T Coetzer, Mr B Colyvas, Ms I Lubbe, Mr M Kunene, Mr K Makwetu,
Mr V Ndzimande, Ms N Ranchod, Ms R Rasikhinya, Ms C Wurayayi
Alternates: Mr S Badat, Ms L Bodewig
Chief Executive Officer: Ms E Swart Technical Director: Ms J Poggiolini

ANNEXURE A – DETAILED RESPONSES

Specific Matter for Comment:

The IPSASB proposes deleting the defined term “Government Business Enterprise” and removing all references to the term from the IPSASB’s pronouncements, so that the Preface to International Public Sector Accounting Standards will provide guidance on the applicability of IPSASs and RPGs.

In order to facilitate comments, a positive description of the characteristics of public sector entities for which IPSASs are intended is included in the Executive Summary of the ED. This description will be part of the Preface to International Public Sector Accounting Standards.

Do you agree with the changes to IPSASs and RPGs proposed in this ED? If not, please provide your reasons.

We agree with the proposed changes to IPSASs and RPGs to delete the GBE definition in IPSAS 1 and removing all references to the term in the IPSASB’s literature. We also support the replacement of paragraph 10 with the revised paragraph which provides the characteristics of public sector entities for which IPSASs are intended.

Replacement of GBEs with the term “commercial public sector entity”

Some of our stakeholders question the replacement of the previously defined term “GBE” with the undefined term “commercial public sector entity” and/or “commercial entity”. It is not clear what the IPSASB considers to be “commercial public sector entities”. For instance, is a commercial public sector entity an entity that is described in paragraph BC27 of the *Amendments to IPSAS 1* which provides that “*The IPSASB acknowledges that the public sector also includes other entities that seek a return on equity to investors*” or is it an entity that does not have a primary objective to make profits based on the characteristics of a public sector entity.

To address this concern, we believe it would be useful for the IPSASB to provide a *description* of what would be considered a commercial public sector entity. We do however not believe that the IPSASB should define commercial public sector entities, and should rather leave this up to the regulators in the different jurisdictions to decide how they would define entities that operate in the public sector environment but do not meet the characteristics of a public sector entity. In our view, this approach further reinforces the IPSASB’s outlook on the role of the regulators in determining which entities should apply IPSASs. We believe that the regulators would be able to apply better judgement in determining which entities should not be required to prepare general purpose financial statements and the appropriate reporting framework for those entities.

Replacement of paragraph 10 with the characteristics of a public sector entity

We welcome the revised characteristics outlined in the *Amendments to IPSAS 1*. We understand that the IPSASB had intended that these high-level characteristics would broadly outline the features of a public sector entity for which it develops IPSASs and RPGs. Our stakeholders raised the concern that these high-level characteristics will be difficult to interpret and apply in different jurisdictions. They note that the readers of IPSASs who are trying to determine the appropriate reporting framework may require explanatory guidance to aid in the interpretation and application of the characteristics. While the Basis for Conclusions gives the readers some insights into the IPSASB’s thinking and decisions

made when it developed the characteristics, clear guidance would assist in establishing a clear boundary between public sector entities that should apply IPSASs, and those other public sector entities such as GBEs which should apply IFRSs (or a national equivalent). This view is consistent with our feedback in our response to the Consultation Paper issued in August 2014.

The discussion below outlines those areas where we believe additional guidance or commentary would be useful to ensure consistent interpretation and application of the characteristics. This discussion is an extension of our initial feedback which also outlined specific areas that required supporting guidance.

(a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth.

Paragraph BC 28 on page 12 explains what is meant by the description “*are responsible for the delivery of services*”. We propose that the text should be elevated and used as supporting guidance in the Preface as it clarifies that a public sector entity is not one that delivers services, in the normal course of its business, with a profit-oriented objective.

Additionally, our stakeholders indicated that there are some private sector entities that could be seen as being responsible for delivering services to benefit the public because of the nature of the services they provide, e.g. healthcare. However, unlike public sector entities, they are not mandated to deliver those services in accordance with legislation or similar means. It was noted that the supporting guidance should make it clear that the responsibility to deliver services that benefit the public is usually linked to a clear government mandate.

(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment.

When reading the characteristic, the second aspect relating to the absence of capital providers that are seeking a return on their investment or a return of their investment is not prominent enough. Our stakeholders indicated that this aspect is equally important, and proposed that the sentence should be separated into two parts so that both aspects are prominent to the reader.

General and editorial comments:

Reference	Proposal
General	The terms “commercial entity” and “commercial public sector entity” are used interchangeably throughout the Exposure Draft. We note that there areas in the Exposure Draft where the term “commercial entity” is more appropriate, however we suggest that the terms are used consistently.
BC 24(d) – page 12	Amend the paragraph as follows: <i>“(d) Holding assets <u>primarily</u> for service potential instead of assets held to generate cash is a distinctive characteristic of public sector entities for which IPSASs are intended.”</i>
Par 13 – page 35	The paragraph indicates that controlled commercial entities are not required to apply IPSAS 35 in their separate financial statements. However the Standard applies to the controlling entity that controls commercial entities. Our stakeholders questioned who would decide if an entity is a commercial entity, and propose that the IPSASB provides guiding principles for the readers of IPSASs.