



EPSAS Cell on Principles related to EPSAS standards

Luxembourg, 29 March 2017

Note of the meeting – draft

Introduction/ approval of the agenda

1. The agenda was agreed without comments.

Note of the main points from the first meeting of the Cell

2. Subject to taking into account the following comments the note of the previous cell meeting was approved:

One participant suggested expanding point 7 to also include information needs of different users as these may be diverse.

Point 15, 3rd bullet – replace the expression 'more or less' with 'some' or 'most' consistently used by the participants' jurisdictions'...

Point 18 – suggested to end last sentence after 'qualitative characteristics' and omit the rest. The sentence would read: 'While applying accounting principles and drafting financial statements based on public sector standards, preparers would generally search for guidance in the qualitative characteristics. This was considered as important for issues not dealt with expressly by an existing public sector standard.'

Feedback from the EPSAS Working Group - main discussion points/ conclusions

3. The focus of the discussion was on the feedback from the EPSAS WG meeting of 22 and 23 November 2016 on the Cell's interim report and in particular the contributions

that had been received from ISTAT, Germany, France and Belgium following that WG meeting.

4. It had been suggested to provide definitions of both 'true and fair view' and 'European public good'. Eurostat stressed that such terms were usually defined only implicitly, rather than explicitly, by providing contextual interpretations on a case-by-case basis. Eurostat agreed to support the use of 'true and fair' by reference to interpretations given by the ECJ and explained the term 'public interest of the EU' might be given preference in the end, or another formulation expressly referred to in the EU Treaties, but pending the discussion on 'European public good' in the context of the IAS the two terms, although not identical, might be used interchangeably for the time being. On these terms, Eurostat agreed to make available two non-papers that had been provided by DG FISMA to the ARC. It was also agreed to elaborate on the distinction between GPFRs and GPFSS and that the comments regarding definitions of QC and application principles were for later consideration, as those had not been discussed at previous meetings.

Going concern approach/ continuity of government

5. In the French Conceptual Framework for public accounts the Going Concern principle for public entities (continuity of existence) was considered as a key principle for the French public sector which may have major accounting consequences.
6. Eurostat among other participants took the view that it was important to outline public sector specificities and that the French text, even if potentially reflecting mainly French public sector specificities, offered a more concise approach compared to the one taken by the IPSAS CF.
7. Eurostat felt that the text under consideration, when it was read in conjunction with requirements for a 'true and fair view' and for 'accrual accounts', may be open to different interpretations, one pointing towards the exhaustiveness of the accounts and one potentially limiting the scope of reporting entities.
8. A discussion ensued around the meaning of 'sovereign power' and its implications for accountability, for the presentation of the accounts, for the recognition and transferability of pension claims, and for exhaustiveness and consolidation issues.

Hierarchy of accounting principles

9. Following a discussion on whether the accrual concept was seen as a basic assumption concerning the accounting technique, rather than an objective, Eurostat concluded that the presentation of the 'accruals concept' should be amended in order to be shown on the same level as the objectives.

10. Some participants stressed the need for a hierarchy within principles and QCs as it played an important role in some national frameworks. It was argued that the principles of reliability, objectivity and prudence were primary principles that needed to be placed above the remaining accounting QCs/ principles. In that context it was also argued that sustainability, inter-generation fairness and prudence were the overarching principles dominating all other accounting QCs/ principles. The meeting discussed whether there was a twofold consequence from the definition of a hierarchy: (a) it would limit the discretionary powers of standard-setters and preparers by limiting the power of the sub-ordinated QCs/ principles, and (b) it would limit to a large extent, if not fully prohibit, the use of fair value measurement by prohibiting the recognition of unrealised income.
11. Not all Cell participants saw the need for a hierarchy among accounting principles. In their experience, there was no indication that existing conceptual frameworks which existed without a hierarchy of principles failed to deliver on prudent accounting, sustainability or inter-generational fairness.
12. There was also the view that sustainability/ intergenerational fairness were overarching financial reporting principles thus calling for a hierarchy among the principles. Eurostat pointed to the amendment agreed in the context of the Cell report on Governance principles, referring to sustainability and inter-generational fairness as comprised among the key aims of IPSAS-based GPFs with a view to serving both decision making and accountability purposes.
13. As had been prepared to support the report of the cell on FTI, the addition of a glossary of terms in use to support the report of this cell was proposed.

Definitions of accounting principles

14. The definition of prudence was discussed in detail and reference was made to EU legislation in force - the Accounting Directive (2013/34/EU), as well as the current IASB framework exposure draft. More specifically some participants suggested relying to the rather strict definition of prudence as in the Accounting Directive, instead of the IPSAS-based definition outlined by Eurostat, as it prohibited the recognition of unrealised income and thus the use of fair value measurement.
15. Eurostat furthermore wished to rectify the widespread misunderstanding that revaluations as a result of fair value measurement, be it under IPSAS or IFRS, were to be booked via the income respectively profit and loss account and thus mechanically lead to recognising unrealised profits in the accounts. Eurostat explained that, except in well specified cases, revaluations were booked either via the revaluation reserve (IPSAS) respectively the OCI (other comprehensive income account - in IFRS). Eurostat considered that this fact might ease concerns of imprudent accounting and loosen the feeling of being in need of a too restrictive approach to the definition of prudence.

16. Eurostat reiterated its intention to introduce an explicit reference to the principle of prudence and stressed that its draft EPSAS conceptual framework already did so, and in a manner that was basically in line with the IPSAS approach to prudence.

Next steps / Action Points

1. Eurostat to review the formulations concerning GPFRs and GPFSs, 'true and fair' view, and 'European Public Good'. On the latter two terms, Eurostat agreed to make available two non-papers that had been provided by DG FISMA to the ARC.
2. The discussion on the going concern principle for public sector to continue. Eurostat to provide background information to support further reflection by the French delegate on the transferability of pension rights and its implications for the public concern approach.
3. Eurostat invited the Cell participants to further reflect on hierarchy and provide examples for specific evidence of problems resulting from accounting frameworks not having an established hierarchy among accounting principles.
4. Eurostat to update and make available to participants for comments the outline of EPSAS definitions in line with the final report from Cell on Governance principles and changes agreed at the Cell's discussion.
5. The Cell participants were invited to submit by email their comments on the draft definitions by 4th August 2017.
6. Eurostat would give an oral update on the work done by the Cell at the next meeting of the Working Group, to be held on 26-27 April 2017 in Lisbon.

**Participants List - EPSAS Cell on Principles related to EPSAS standards
Luxembourg, 29 March 2017**

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IPSAS Board:	Ian Carruthers
Accountancy Europe:	Thomas Müller-Marqués Berger
Eurostat:	Alexandre Makaronidis Keith Hayes Norbert Gáspár István Varjas Carmela Zammit Livia Strakova Peeter Leetmaa
DG Budget:	Magdalena Zogala
Observers:	Marios Hadjidamianou (Treasury, CY) George Michael (Treasury, CY) Isabelle Collignon-Joffre (Ministry of Finance, FR) Paolo Angiolillo (Ministry of Finance, IT) Rashmi Rajyaguru (HM Treasury, UK)