Report by the French Public Sector Accounting Standards Council ("CNOCP")

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Marie-Pierre CALMEL, General Secretary

Main opinions issued in 2011

http://www.budget.gouv.fr/cnocp

CNOCP
Conseil de normalisation des comptes publics

Opinions issued in 2011 – Service concession arrangements : grantor

- ✓ Opinion n° 2011–11 of 8 December 2011 relating to the treatment of contracts for the provision of public services in the accounts of public entities.

- ✓ This Opinion is "IPSAS compliant" with IPSAS 32 " Service concession arrangements: grantor", except for the recognition of any difference between the initial cost of the equipment and amounts payable for funding.

Opinions issued in 2011 – Service concession arrangements : grantor

- *Scope*

  The Opinion applies to contracts between a public entity and an independent operator in which the public entity controls the public service which the operator helps to provide using the equipment defined in the contract.

- *Recognition of the Equipment*
  - When the public entity controls the contractually defined equipment within the scope of this Opinion it recognizes the corresponding tangible asset in its balance sheet.
  - In order to ascertain whether the public entity meets the two control criteria (control over the conditions of use of the equipment, control over the service potential and/or economic benefits derived from that use), six indicators may be used.

Opinions issued in 2011 – Service concession arrangements : grantor

✓ *Measurement at the Reporting Date*

- At the reporting date, the equipment is measured according to the accounting requirements applicable to public entities that are party to contracts within the scope of the Opinion.

- Measurement at reporting date is carried out, where relevant, taking into account the equipment maintenance and renewal clauses incumbent on the operator. Whether or not such clauses exist, measurement takes into account the obsolescence of the equipment over time.

- In the case of depreciable equipment, the effect of the maintenance clauses may obviate the need to recognize depreciation expense in the public entity's accounts, particularly when, the relevant equipment, for example an infrastructure, only undergoes negligeable obsolescence.

Opinions issued in 2011 – Service concession arrangements : grantor

- ✓ *Accounting for the Corresponding Entry on Recognition of the Initial Cost of the Equipment*

  - Amounts Paid by the Public Entity to Fund the Equipment
    - The amounts payable by the public entity to fund the equipment are recognized as a financial debt in its accounts according to the terms of the contract.

  - Recognition of any Difference betwen the Initial Cost of the Equipment and Amounts Payable for Funding
    - The difference between the cost of the equipment and the initial amount of debt of the public entity in respect of funding is recognized in net assets/equity.
    - In those cases where depreciation or impairment expense is recognized in the surplus/ deficit statement, the amount initially recognized in net assets/equity is written back through the surplus/deficit statement. The amount written back is equal to the amount of expense recognized in respect of the equipment, adjusted if appropriate to take account of the proportion of the amount initially recognized in net assets/equity as compared to the initial cost of the equipment.

- ✓ *Presentation and disclosures*

Opinions issued in 2011 – Segment reporting for Central Government

- ✓ Opinion No. 2011-06 of 8th July 2011 Relating to the Segment Reporting for Central Government.

- ✓ The objective of this standard is to provide aggregate information on the main activities of Central Government in order to explain and enhance the understandability of the accounts.

- ✓ This Opinion is “IPSAS compliant” with IPSAS 18 Segment Reporting.

Opinions issued in 2011 – Segment reporting for Central Government

✓ *Definition of a segment*

A segment is a distinguishable activity or uniform group of activities of a lasting nature that relates to a major public policy objective.

- As part of the modernisation of public policies and the application of the Constitutional By-law on Budget Acts (LOLF), Central Government’s expenditure is presented and approved by mission, that is to say by major public policy.
- In order to reflect the budget presentation, missions may be used as a basis for composing segments.
- Segments made up of groups of missions, without affecting the scope of any of them, must have a stable composition and be limited in number, so as to ensure the comparability over time and understandability of the segment information reported.

Opinions issued in 2011 – Segment reporting for Central Government

- ✓ *Choice of principles and elements disclosed*

  The allocation of elements to different segments is carried out on the basis of the amounts included in the financial statements of Central Government. It concerns assets, liabilities, revenue, expense and off-balance sheet commitments. The standard presents the main aggregates to be reported for each of those elements.

- ✓ *Assets*

  Segment assets are those assets employed by a segment in its operating activities. They include fixed assets (intangible, tangible or financial), inventories, receivables and cash.

  - Property : the adoption of the centralised property management model for segmentation purposes means that the property is not allocated to the user segments.

Opinions issued in 2011 – Segment reporting for Central Government

- ***Liabilities***

  Segment liabilities include financial and non-financial debts, provisions for risks and liabilities, negative cash balances and other liabilities related to the operating activity of the segment.

  - Financial debt : the choice of a centralised model of management of the financial debt of Central Government as part of a specific mission leads to allocating this activity to a specific segment, rather than allocating the debt to different segments or to a segment containing all the missions of public finance.

- ***Revenue***

  Segment revenue is the gross revenue directly recognized by a segment. The main aggregates to be reported for segment revenue are: operating revenue, intervention revenue and financial revenue.

  - Sovereign revenue: it is not, as a matter of principle, allocated by segment and is presented net of contributions based on revenue.

- *Expense*

  Segment expense is the gross expense resulting from the operating activities of a segment.

  The main aggregates to be reported for segment expense are: personnel expense, operating expense (excluding personnel expense), intervention expense and financial expense.

  - The total expense relating to the payment of civil servants' retirement pensions is centralised in a special account which is not allocated by segment for the purposes of segment reporting.
  - The debt financial expense is borne by the specific segment that carries the financial debt.
  - Depreciation, provisions and impairment expense are allocated to the same segment as the element to which they apply.

Opinions issued in 2011 – Segment reporting for Central Government

- *Off-Balance Sheet Commitments*

  Off-balance sheet commitments are disclosed in the notes to the accounts of Central Government.

  For segment reporting, off-balance sheet commitments of a material amount are allocated by segment.

  The information to be presented as a minimum is:

  - Commitments relating to transactions for which the service is outstanding;
  - Intervention commitments of Central Government.

Opinions issued in 2011 – Financial instruments

- ✓ Opinion No.2011-05 of the 8th July 2011 relating to the disclosure of financial debts and derivative instruments of public accounting entities
  - within the scope of the General Code of Local and Regional Authorities, the Code for Social Action and Families, the Code of Public Health and the Code of Construction and Housing
- ✓ And on going work on financial instruments

Opinions issued in 2011 – Financial instruments

- ✓ Structured loans may represent a significant proportion of outstanding debt for some public entities, as a result of which the latter are exposed to the risk of a substantial increase in financial expense due to indexation on elements other than market interest rates.

- ✓ This CNOCP work is not « IPSAS compliant » with financial instruments standards, especially as regards the fair value accounting.

- ✓ Fair value recognition and measurement are not well suited for public local authorities :
  - ✓ given the nature of financial operations (subscription of loans for the funding of investments, and not for portfolio management)
  - ✓ given the financial organisation of local authorities, where the close link between accounting and budget triggers fiscal constraints.

Opinions issued in 2011 – Financial instruments

- Even if liabilities and derivatives for public entities are note recognised and measured at fair value, the objective is to assess the level of risk incurred, especially in the structured loans (exit costs).

- The Council decided to carry out its work in two phases.

- In the first phase (Opinion No.2011-05 of the 8th July 2011), the Council has defined the basic minimum disclosures of financial debts and derivative instruments to be made in the notes, in order to provide the users of the financial statements with full information on the level of risks incurred and the proportion of risky loans in the portfolio :
  - information relating to financial debts at their issue date and at the reporting date,
  - information on complex debts,
  - and information on debts before and after hedging,
  - sensitivity to a fluctuation of exchange rates, …)

Opinions issued in 2011 – Financial instruments

- In the actual second phase, the work on recognition and measurement of financial debts and derivative instruments is carried out.

- The future Opinion will cover
  - Measurement
    - The risk component included in « complex loans », which may lead the subscriber to pay an interest rate substantially higher than the market rate, should be accounted for. The aim is to assess the value of the risk incurred, not the market value of the loan
  - Loan restructuring
  - Hedge accounting

Work Plan 2012 - 2013

Work Plan 2012-2013 – Central Government Standards Manual

✓ *Accounting requirements for taxation*

The aim is to review the requirements relating to taxation, which appear in several standards : a specific standard (Standard 3 “Sovereign Revenues”) and a general standard (Standard 9 “Current Receivables”), which deals with provisions and the impairment of receivables.

Moreover, the requirements of Standard 3 could be completed to include certain categories of tax (“ITAF”(allocated taxation), carry forward, carry back of corporate tax losses,...).

✓ *Intangible Assets*

Work carried out in preparing the Council’s response to the consultations of the IPSAS Board on its Conceptual Framework have provided input for a possible clarification of certain requirements of Standard 5 “Intangible Assets”.

Moreover, the Central Government Accounting Standards Manual needs updating to include requirements relating to the hertzian spectrum, gas emission allowances and service concessions arrangements.

Work Plan 2012-2013 – Central Government Standards Manual

✓ *Conceptual Framework*

Work carried out by the commission for "Central Government and Government-Controlled Organisations" in 2010/2011 has led to amendment or clarification of several points in the Conceptual Framework.

In addition, the preparation of the response to the consultations of the IPSAS Board on the Conceptual Framework for the Public Sector raised issues which would be worth clarifying in the conceptual framework of the Central Government Accounting Standards Manual.

The appropriate work could be undertaken in this context.

✓ *Central Government Pension Commitments*

Following the revision of Standard 13 "Commitments to be disclosed in the notes to the financial statements" and considering developments in international accounting standards, the requirements relating to the Central Government's pension commitments could be revised.

Work Plan 2012-2013 – National Public Agencies

✓ *Accounting Standards Manual for National Public Agencies*

Completion of work on the future Accounting Standards Manual for Government-Controlled Organisations.

✓ *Entry Value of assets in the accounts of Public Agencies*

Since certain tangible assets not previously recognised in the accounts of Public Agencies have been valued this year by "France Domaine", a clarification of the accounting requirements relevant to these "new balance sheet entries" is required taking into account the specific circumstances.

Work Plan 2012-2013 – Social Security Organisations

- ✓ *Chart of Accounts for Social Security Organisations*

  Improvements have been undertaken to the part of the “PCUOSS” dealing with commitments to be disclosed in the notes to the accounts of Social Security Organisations with particular reference to the definition of the relevant triggering events.

  This work should be the first step towards the study of a future conceptual framework for Social Security Organisations.

Work Plan 2012-2013 – Local Public Agencies

✓ *Accounting and budgetary framework for local sector (Local Authorities and Local Public Agencies)*

The aim is to improve the accounting and budgetary framework, which is based on an “modified accrual accounting” system in order to move towards an “accrual accounting” system.