

## Comments by Thomas Müller-Marqués Berger on François Lequiller's presentation :

First of all, thank you for the invitation and congratulations for the excellent work done.

I will answer the two questions together, as they are closely linked and time is limited.

Before I do that however, I have to tell you upfront that as an outcome of the discussion within the FEE Public Sector Committee (PSC) the necessity and the approach of developing independent European standards is not yet finally understood and agreed by the majority of the PSC members. European governance or ownership of the standards in our view could also be reached by an endorsement process as for IFRS (i.e. EU mechanism) or a process such as that in the UK public sector.

So the question is still valid whether it is worth duplicating the organization and the effort of creating standards instead of using energy and resources for helping to solve the concerns regarding IPSAS. I appreciate that this needs some time, and speed might have been a compelling argument for EPSAS. But this in my view makes it necessary that a decision on EPSAS and their establishment is made in a relatively short timeframe in order to provide clarity to the member states. We already see reform initiatives in Member States being paused due to the uncertainty on the way forward. So if we needed the next couple of years only to discuss the governance, I would NOT see a comparative advantage of EPSAS any more.

But for the sake of the discussion, I want to build on the assumption, that the EPSAS project would be launched, and look at the proposal made. In general I would agree that for European standard setting we need a strong European governance process and that these standards technically should have its basis in IPSAS. However, looking deeper at that, obviously there are some issues to clarify.

One question is, who should be involved and how do the groups act together.

Following to the report, any reform should ensure that the independence of the standard- setting process is strengthened. In that context - comparable to the discussions regarding the IPSASB - the composition of the so called EPSAS committee and the task forces is of utmost importance for the acceptance of the outcome. I can not provide you with the ultimate solution today, but if those who are accountable for the picture of the real world prepare the mirror, that probably affects the independence of standard setting.

Regarding the auditors, we heard yesterday from Mr. Caldeira, that they should stay independent by keeping themselves outside of standard setting processes. This is even more an issue, when it comes to interpretations operationalizing the use of specific standards. So it is probably difficult to include them in the interpretation working group. On the other side however, the auditors have to play an important role during the implementation phase afterwards.

The INTERPLAY of the EPSAS committee approving the standards, and the TECHNICAL working group being responsible for the preparation of the draft standards, in my view needs further discussion. Given that this working group is proposed to include governmental accountants as technical experts, there is certainly a danger that this group grows into a much stronger role than just an "advisory role" - turning out to be the real standard setter in the end. So both from a technical perspective and from the perspective of ownership, there needs to be a clear understanding of the respective tasks and responsibilities. Drafting/approving of standards in different hands?

For the sake of consistency, I explicitly support the proposal of the second working group focussing on interpretation and application of the standards. This group is certainly essential to operationalize the standards and ensure consistent application.

Coming to IPSAS as a starting point. As repeatedly said, there is probably no good reason NOT to use IPSAS as a basis. The more relevant question for me is, how to establish a transparent and understandable process of

identifying areas where adjustments are needed for European specific reasons. We should not forget that IPSASs have gone through a thorough due process including public consultation until they become a standard - by the way with the opportunity for everybody in Europe to contribute on the basis of the specific European perspective.

An EPSAS standard setter therefore in my view needs very strong arguments resulting of a structured analysis why in a specific case EPSAS should give a different answer than IPSASs. Based on the experience of dealing with IFRS as a starting point, the IPSASB has developed the so called "rules of the road process". In order to keep inappropriate influences out of standard setting, an EPSAS standard setter in my view should apply a comparable process with the objective to stay as close as possible to the starting point.

Finally, I want to look at three concerns regarding IPSAS described in the report and ask for the consequences if we used these standards as a starting point:

1. "suite of standards is not complete in terms of coverage"

This is true as it refers to social benefits, and the Board is working towards that - (by the way, Andreas already mentioned IPSAS 23 for taxes which is well covered). But on the other hand, we have to realize that no set of standards will be ever complete as the real world develops and so the accounting as the mirror image has to develop - Emission trading schemes is a good example for that. And the same applies to EPSAS. Therefore, using IPSAS as a starting point and given that these standards will develop over time, we need to be aware that future maintenance will be needed in order to ensure convergence and completeness of EPSAS. Otherwise we really only talk about a starting point with the consequence of different developments in the future, losing the connection between both sets of standards. In my view, the second would not be supportable for the reasons given before.

2. - "standards are insufficiently stable since it is expected that some standards will need to be updated once the work on the conceptual framework is finalized"

a) Firstly, this is true in general, even if the current results of the framework project do not suggest major adjustments of current standards. But leaving aside the framework project, a set of accounting standards is never stable, as IFRS users have repeatedly experienced. In the specific case of IPSAS, more than by the framework changes are caused by developments of IFRS. The open question connected with IPSAS as a starting point therefore is, what does it mean for the stability of EPSAS if IFRS and/or IPSAS as a basis change? In my view again a maintenance process would be needed.

b) But secondly, using IPSAS as a starting point raises the question how to deal with its framework. If EPSAS should be developed "in consistency with ESA principles", as mentioned yesterday, we have to clarify what we mean with that - and this is where I agree with Michel Prada.

In the GFS Alignment project of the IPSASB together with Eurostat and IMF we learnt, that there are limitations concerning full consistency between financial accounting and statistics due to different objectives. So if consistency with statistical principles endangered the true and fair view of the financial position and performance based on generally accepted accounting principles, I would see that as being one step to far. (We already talked about completeness of recognized liabilities, but the French example showed that it is also worth discussing the definition of liabilities. Measurement as well as consolidation are other examples).

Therefore, we better think beforehand about the fundamentals of European accounting standards, in other words the framework, before we discuss specific standards.

I do not know whether this is helpful for the survival of the committee as Andreas mentioned, but at least it is conceptually necessary.

3. - "IPSAS do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments"

Using IPSAS as a starting point in that context could mean to understand EPSAS as the European interpretation of existing IPSAS by making a concrete choice between accounting options and establishing a process to operationalize the standards in order to give detailed guidance to preparers and by this ensure consistency. Let me repeat again that I explicitly support establishing such a interpretation task force as suggested by EUROSTAT.

I hope these initial thoughts give you at least some ideas regarding the way forward. Thank you very much!