

EU conference « towards European Public Sector Accounting Standards (EPSAS)

30 Mai 2013 Brussels

Comments by Michel Prada on François Lequiller's presentation.

Thanks for inviting me to participate in this conference.

While I have been involved in public sector accounting for more than 45 years in different capacities, and I chair the French standard setter for public sector accounting, my views today will be purely personal, building on different experiences, including as one of the European securities regulators, and also on the discussions we had at the OECD symposium on accrual accounting for the public sector which I chaired last year and this year.

On the first question asked by François Lequiller, I'd firstly say that I'm very enthusiastic regarding the strategic direction which is being adopted by the EU Commission. I'm convinced that a proper system of monitoring of public Finances within the EU, and more specifically within the euro-zone, does require a fully harmonised system of accrual general purpose accounts for all public sector entities.

I'm indeed convinced that, besides budget accounts and national accounts, general purpose accrual accounts are necessary to provide a comprehensive set of reliable data describing inflows, outflows and, even more important, assets and liabilities that are needed to undertake, together with other tools, a proper financial analysis of fiscal sustainability. By the way, while good financial reporting is of the essence, fiscal sustainability analysis goes way beyond accounting.

Having said that, my comments on the first question are twofold.

I agree with the idea that comparability of public accounts in the EU needs to be raised to the maximum level. We therefore need standards to be legally binding and implemented in a fully harmonised way. I would add a consideration of timing which, to my view, contributes to justify an EU specific standard setting process. We cannot wait for another decade to finalise a system of EU standards and I am, by the way, persuaded that it is feasible to deliver it in a shorter period of time if we focus on EU member states that have a long history of work as a team in order to foster convergence towards an integrated marketplace. We also have to recognise that implementation will require some time. Therefore we should start sooner than later and make things as simple and efficient as possible.

This does not mean that we should lose sight of possible comparability with other countries. While governments are different from corporates, sovereign debt markets tend to compare them and international harmonisation is therefore a relevant, although longer term, objective.

My second comment regards the reference to IPSAS as the starting point of our undertaking. I am not convinced by this proposal. At the same time I don't think we should give too much importance to this question and take the risk to be embarrassed by preliminary philosophical disputes.

While IPSAS are clearly a reference point, I personally do not consider IPSAS as indisputable. Their conceptual framework is not yet finalised and we know that this is still a matter for controversy. Not only are there some standards that the EU would probably wish to amend or modify, for example financial instruments; IPSAS are also incomplete and do not address some of the major issues, namely social benefits, that are precisely essential and specific to the public sector. It would be paradoxical to consider that the EU should build its own system independently and to start with only one reference that a number member states do not consider fully appropriate.

On the other hand, IPSAS are a useful reference, some good work has been done by the IPSAS Board, and we should adopt a pragmatic approach. We should therefore refer to existing international standards, the IPSAS and IFRS, and also to the experience of member states, and other countries, keeping in mind a long term objective of international convergence.

But I am convinced that we will have to start with some common understanding of our objectives and therefore with some consideration given to an EU approach to a conceptual framework that is globally accepted by member states.

On the second question regarding institutional arrangements and governance of the standard setting process, I fully agree with the principles stated by François Lequiller:

- building an entity composed of the standard setters or accounting authorities of member states;
- encompassing the technical expertise of a wide range of stakeholders;
- providing technical independence, transparency and accountability;
- providing sufficient staff and resources.

Nonetheless, based on past experience regarding private sector accounting and financial regulation in the EU, I have some questions and reservations concerning the detailed proposal.

Firstly, while I support the idea that accounting regulation should follow the comitology procedure, having nevertheless in mind the need for flexibility and adaptability, I'm not sure the Commission should chair the standard setting Committee. I'm afraid this would hinder the technical independence of the standard setting process and create undue confusion with the role of the Commission with regard to political and legal endorsement of the standards. I

would rather recommend a system similar to the one that has been painfully, but successfully, developed over the past 15 years for financial regulation, (having namely in mind ESMA that I know best). We should build an EPSAS Board or Committee with a full time a Chair, and a dedicated staff. Technical proposals would not come from the Commission but from working groups set up by the Board and supported by the staff. The Commission would of course attend the meetings and provide its views as it does in similar bodies. Observers would also be invited to the meetings, some of them with a possibility to participate in the discussions without a voting right, namely international standard setters such as IPSAS Board and alike.

Secondly, I think that a wide participation of stakeholders should take place at the working groups level where practitioners of all sorts, preparers, academics, public and private sector auditors, would work together to design the draft standards proposed to the Board. And because we need to act speedily, we should set up several working groups, whose coordination would be provided by the staff and chair. We can identify possibly four groupings, central government, local government, social security and agencies, but we could also adopt different structuring.

Finally, I'm not sure it is a priority to set up an interpretation committee as we have nothing to interpret today. But I would advise setting up an advisory Council that would be consulted from the outset on the development, work program and output of this ambitious undertaking.

Obviously, once standards are adopted and implemented, some interpretation process should be set up to ensure consistency at the EU level. Only if the workload was too heavy for the Board to deal with both standard setting and interpretation would we need a specific interpretation committee.