



May 2012
AK Position Paper

Assessment of the suitability of the International Public Sector Accounting Standards for the Member States - Public consultation

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community- and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Herbert Tumpel
President

Werner Muhm
Director

The AK position in detail

1. Please state the main motivations for your interest in this public consultation

The Austrian Federal Chamber of Labour (AK) is the umbrella organisation of the nine regional chambers. It has been organised as a corporation under public law and is as such the legal representation of interest of all employees in Austria.

The activities of the AK are based on the Chambers of Labour Act. This Act obliges the AK to introduce the position of workers as well as their interests as consumers to all social, educational and politico-economic matters within the scope of a legally provided assessment procedure.

In its capacity as an umbrella organisation, the AK represents a total of 3 million members with regard to all economic, social and educational policy issues. The AK would like to make the following comments on the questions posed in the consultation paper:

2. Do you consider that International Public Sector Accounting Standards (IPSAS) are suitable for implementation in the EU Member States?

To begin with, it has to be pointed out that concerning the suitability of IPSAS for the budgetary rights of the Member States of the European Union, many Member States, including Austria, already orientate their budgetary rights towards individual IPSAS. Adopting individual standards - parallel to the classic financial accounts - could provide individual Member States with relevant information on the income statement and the financial standing of a Member State.

However, this information can also be obtained by amending individual national budgetary rights; it is not necessary to use the IPSAS as a basis. Apart from that, other accounting methods, such as the European System of Accounts (ESA), also provide comprehensive information.

The new accounting system of the Federation in Austria, which comes into force in 2013, covering financial, income and capital accounts, is complicated and difficult to understand. The new system will make it more difficult for non-experts to get an overall picture of the federal budget.

In any case, the AK strongly rejects the implementation of IPSAS in the Member States via Union law, as the structure of individual national budgetary rights should lie in the competence of the legislation of individual Member States. The competence of the Parliament in budget matters is understood as an essential part of democracy, as one of the noblest rights of Parliament.

Apart from that, the AK raises significant democratic concerns with regard to the preparation of IPSAS and their integration in Union law. Similar to the IASB Board, the IPSAS Board too is a privately organised federation, whose members are predominantly professional associations. The AK considers it generally to be questionable that a private association is developing standards for the public sector. The influence of a private standard setter should be returned to a consulting and supporting role within the scope of the legislative process. The political will must come from competent democratic organs, and not the other way round from a private institution.

This is added by the fact that since the reorganisation in 2011, the IASB committees no longer include representatives of international trade unions. As a result, employees' interests and the positions of trade unions can no longer play a part in the work of the IASB. From the point of view of the AK, a content-related integration of European resp. international labour representatives and other stakeholders in the IASB - as also demanded by German trade unions - would be essential and should also be ensured in the IPSAS committees.

Not least the IPSAS are based on the IFRS and therefore move in a market-oriented concept of the shareholder value. The question has to be asked what benefit such a view would have for a public budget, as in particular a number of government functions (social security, education system, services of general interest) cannot be sufficiently covered by these standards.

3. What do you consider would be the main advantages, opportunities and benefits from any future implementation of IPSAS in EU Member States?

Apart from the classic presentation of the financial situation, the implementation of IPSAS provides comprehensive information on the profit and asset position of a public budget. However, it has to be noted that such information can also be obtained by alternative methods and that the mandatory implementation of IPSAS in the Member States would not be an essential requirement.

4. What do you consider would be the main obstacles and disadvantages concerning any future implementation of IPSAS in EU Member States?

The IPSAS rules are based on International Accounting Standards, which are orientated towards the shareholder value principle. The aim of an IFRS financial statement is to provide both existing and future investors with a true and fair view of a company, i.e. the IFRS financial statement shows how profitable a company is.

However, the national budget is based on other functions and responsibilities than a company; hence one cannot compare their accounting methods. As a result, the AK considers the adoption of the shareholder value principle by the public sector as being questionable. Those involved in public accounting are not private investors but decision makers with the scope of the democratic process. The decisions taken by them, both in the area of the legislative and the executive do not pursue a market-based, but a political logic. Hence, information required for governance must correspond with political logic. The National Council in Austria decides first and foremost on raising funds (via taxes, contributions and charges resp. via the capital market) as well as on the allocation of funds for various targets. The federal budget documents the resource requirements for political decisions made by Parliament. According to the new budget law, this will now take place via the financial accounts resp. the financing budgets, which means that in this respect there is no longer a difference to the traditional budget. The standards of IPSAS, for ex-

ample, do not provide for any possibilities, to include any essential future governmental factors (such as education, health care, labour market policy), which are more relevant to Member States than to companies.

We are also critical of the evaluation of fair value in IPSAS, which have been adopted from the IFRS. Over the past years, the evaluation according to fair value has increasingly found its way into the balance sheet rules of international corporations. In contrast to Austrian accounting methods, assets are not based on a maximum level of historical costs, but on their current market value. In times of rising prices this led to high profits in balance sheets, which, however, were not actually realised. Equity capital is overvalued. Prices fell due to the economic crisis and companies had to make considerable write-downs. On the one hand, balancing based on IFRS leads to possible exaggerated, not realisable profits and to procyclical sharp swings on the other as in case of downward moves, the value of non-realizable profits has to be adjusted. Low equity capital puts the asset security of companies at risk, which means that the reliability of balancing is no longer guaranteed.

The AK does not consider the application of the fair value principle in the public sector to be beneficial as it affects too much volatility in the results; apart from that it appears that the long-term and above all stable development of governmental budgeting might be very difficult.

In addition, IPSAS include a number of valuation options (e.g. valuation of assets) and complex valuation rules. As a result, each State is able to apply a different valuation option, which makes it very difficult to compare results.

The implementation of IPSAS (e.g. at communal level) is in contrast to the principle of proportionality. The complex regulations and the coexistence of financing and profit budget result in less transparency and comprehensibility of representations at expert level.

5. If you have any observations concerning the connections or links between possible future IPSAS implementation and financial reporting for the Excessive Deficit Procedure, please provide them here:

With regard to the Excessive Deficit Procedure, the European Union has introduced ESA 95, which is an EU-wide comparable information system that has been applied since the introduction of the Stability and Growth Pact. Hence, another accounting method is not required. Apart from that, since the adoption of the "Six-Pack", additional obligations have been introduced at European level, which require the national states to provide data. Due to the large number of existing information systems, the ensuing complexity is already very high.

6. Please give any views or comments concerning the process and timetable for any future implementation of IPSAS in EU Member States

The implementation of the budgetary rights should remain within the scope of the Member States; therefore the implementation of IPSAS should not be recommended. For that reason, the AK strongly rejects an implementation of these regulations via Union law. Hence, we are not able to provide recommendations concerning a possible timetable

ly difficult times and due to the current efforts of governments to consolidate their public budgets.

7. Please provide any other observations or information you would like to make available which are not covered by your earlier answers

Apart from the comments so far, one has to ask the question how amended IFRS standards resp. new standards would flow into IPSAS. In general, IFRS standards are often revised and very comprehensive. That is why serious endorsement procedures and ongoing changes have to be expected. This in turn results in increasing running costs.

On the one hand, the Commission plans, as part of the EU Better Regulation Strategy, to modernise and simplify accounting, in order to help companies save administration costs. However, due to the implementation of IPSAS in the public sector, the AK envisages significant additional budgetary costs for the Member States (training courses, IT etc.). The AK considers the adoption of IPSAS to be problematic, in particular in economical-

Should you have any further questions
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