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Agenda item  
**2A**

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**Date:** June 10, 2010  
**Memo to:** Members of the IPSASB  
**From:** Paul Sutcliffe  
**Subject:** Addendum - Agenda paper 2A.4, pages 17 and 18

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### Addendum - Agenda paper 2A.4

The covering memorandum to Agenda item 2A Conceptual Framework Phase 1 outlined recent decisions of the IASB and FASB in respect of their joint Framework project. The memorandum explained that paragraphs BC41- BC44 of Agenda paper 2A.4 identified the anticipated consequences of certain of those recent IASB/FASB decisions in marked-up paragraphs.

However, the mark-ups were lost when the agenda papers were posted.

The mark-ups are not extensive, but they are significant and may prompt some discussion by the IPSASB.

The relevant paragraphs of Agenda paper 2A.4, including the mark-ups, are reproduced below. Could you please note these mark-ups on Agenda item 2A.4 at pages 17 and 18.

Apologies for any inconvenience.

Regards, Paul

**Agenda item 2A.4 pages 17 and 18 should read as follows:**

#### **The IASB Framework**

BC41. The IASB ED “*Objectives and Qualitative Characteristics*” (2008) identifies:

- relevance and faithful representation as fundamental qualitative characteristics, and explains the order of their application;
- comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics, and explains that their application is an iterative process that does not follow a prescribed order; and
- ~~materiality and~~ cost as a pervasive constraint that limits the information provided by financial reporting.

BC42. The qualitative characteristics identified in the IPSASB’s Conceptual Framework differ in some respects from those proposed by the IASB, because they (a) respond to the objectives of GPFs of public sector entities, and (b) reflect a potentially broader scope of financial reporting than the IASB has currently identified. In addition, they reflect the views of the IPSASB that:

- in some jurisdictions, all matters identified as “fundamental” are perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- all the qualitative characteristics are important. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role no matter what information is being considered for inclusion in GPFRs, or the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability or decision making purposes could be considered as relevant information – therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and
- GPFRs of public sector entities may encompass qualitative and prospective information about service delivery objectives and outcomes over a number of reporting periods for input to assessments of trends in service delivery activities and resources committed thereto – in these cases, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

BC43. The IASB Framework acknowledges that the assessments of costs and benefits of the same reporting requirements may differ for different entities because of differences in, for example their size or because of other factors. The IPSASB’s Conceptual Framework does not deal with matters that may be considered in determining whether differential reporting requirements are justified. The IPSASB intends to deal with differential reporting issue in the development of individual IPSASs or in a separate project.

BC44. The IASB Framework identifies materiality as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. However, the IPSASB’s Conceptual Framework reflects that materiality can impact a number of the qualitative characteristics of information included in GPFRs, and is therefore better reflected as a broad constraint.

*(Staff note: it is anticipated that the IASB will soon issue its final Chapter on qualitative characteristics. This section has been updated for anticipated developments since issue of the ED – highlighted by mark-up. It will be further updated when the final chapter is issued.)*