

CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES:

ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

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BASIS FOR CONCLUSIONS

Basis for Conclusions

This Basis for Conclusions accompanies, but does not form part of, the Conceptual Framework.

Introduction

- BC1. When the IPSASB initiated Phase 2 of the Framework project, the IPSASB decided that the initial focus should be on the financial statements. Respondents to Conceptual Framework, Consultation Paper, *Elements and Recognition in Financial Statements* (CF-CP2) questioned why the IPSASB was only addressing elements for the financial statements in this phase of the Framework and suggested that IPSASB should also develop elements for economic phenomena in the “more comprehensive” areas of financial reporting outside the financial statements, as outlined in Phase 1 of the Framework. The IPSASB acknowledged the merits of these views and agrees that there is a need to develop such elements in the future. The IPSASB, however, decided that in order to put its future standard-setting activities for the financial statements on a sound and transparent footing it is important to deal firstly with the development of elements for the financial statements.
- BC2. Net assets are simply an entity’s assets minus its liabilities at the reporting date. Net assets can be a negative amount. As such, net assets are not an element. The same argument applies to the term “net position,” the substance of which is discussed in Section 6. Paragraph 1.6 states that “net position is the aggregate of an entity’s assets and deferred outflows less an entity’s liabilities and deferred inflows at the reporting date.”

Section 2: Assets

A Present Resource

- BC3. In stating in paragraph 2.2 that physical form is not a necessary condition of an asset, the IPSASB acknowledged that many assets, such as buildings, equipment and inventories are tangible while others, such as patents, mineral rights and emissions allowances are intangible. Financial assets, such as bonds and derivatives are a further category of assets that do not have physical form.
- BC4. The future benefits flowing to an entity can arise both from a resource itself and the rights to that resource. Some resources embody rights to a variety of benefits including, for example, (a) the right to use the resource to provide services; (b) the right to convert the resource into cash through its disposal; (c) the right to benefit from the resource's appreciation in value; and (d) the right to a stream of cash flows from its use. Other rights to benefits may not be directly associated with a particular tangible, intangible or financial resource. An example is the right to require other parties to perform in a certain way, by, for example, making payments or providing goods and services in a manner specified by the entity. One or more public sector entities may also share in the benefits under a joint venture arrangement with another entity.
- BC5. The IPSASB then considered whether a present resource arises from the following arrangements:
- Unconditional rights.
 - Executory contracts.

Unconditional Rights

- BC6. The unconditional promises of external parties typically result from contracts or other binding arrangements that require provision of resources to the entity in the future. The IPSASB noted that there can be a large number of such promises and concluded that such unconditional promises may give rise to assets, if the entity has paid for them or if the unconditional promise has acquired an identifiable value in a liquid and active market.

Executory Contracts

- BC7. Executory contracts are binding arrangements, where there is an unconditional promise to receive benefits and an equal promise to transfer resources to the counterparty in the future. Public sector entities are likely to engage in a large number of such arrangements. The IPSASB acknowledged the view that such arrangements may give rise to both assets and liabilities, as the promise to receive benefits is likely to have value and the promise to transfer benefits involves a present obligation to sacrifice resources which the entity has no realistic alternative to avoid. The IPSASB also acknowledged the view that recognizing assets and liabilities from executory contracts would involve the inclusion of potentially very large offsetting amounts in the statement of financial position and the statement of financial performance and that this would not be in accordance with the QC of understandability. The IPSASB therefore concluded that determining whether the rights and obligations related to executory contracts should be on a standard-by-standards basis.

Service Potential and Economic Benefits

- BC8. IPSASB noted that the term “service potential” has been used to identify the capacity of an asset to provide goods and services in accordance with an entity’s objectives. The term “economic benefits” has been used to connote the ability of an asset to generate net cash inflows. Some argue that the term “economic benefits” embraces “service potential,” others argue that service potential embraces economic benefits, and still others consider that the terms can be used interchangeably. The IPSASB considered whether in the context of the substance of an asset the definition should include a reference to both service potential and economic benefits. The IPSASB acknowledged the view that (a) economic benefits includes service potential and also considered the converse view that because the primary objective of public sector entities is the delivery of goods and services, generally in non-exchange transactions, that (b) service potential should be identified as a separate characteristic. The IPSASB noted that most respondents to CF–CP2 supported a specific allusion to service potential on the grounds noted above.
- BC9. The IPSASB therefore concluded that because the primary objective of most public sector entities is to deliver goods and services, but also in acknowledgment of the fact that public sector entities carry out certain activities with the objective of generating net cash inflows, the definition of an asset should include both the terms service potential and economic benefits.

An Entity Presently Controls

- BC10. As described in paragraph 2.6 control is (a) the ability of an entity to utilize the asset’s benefits in the form of service potential or economic benefits flowing from the resource; (b) the ability to determine the nature and manner of use of the benefits embodied in the resource and (c) the means by which the entity ensures that those benefits meet its own objectives.
- BC11. The IPSASB considered whether “control” is an essential characteristic of an asset or whether other characteristics such as (a) legal ownership; (b) access to benefits; (c) the ability to restrict or deny the access of external parties to benefits; and (d) economic ownership are essential characteristics of an asset that should be included in the definition. The IPSASB acknowledged the views of those who argue that control may be difficult to apply in some cases because it requires considerable judgment to assess whether control exists and that, in addition, control can be erroneously applied to a resource in its entirety and not to the individual benefits that accrue from the resource.
- BC12. Legal ownership of the underlying resource, such as a property or item of equipment, is one method of accessing the benefits provided by an asset and may therefore be an indicator of control. However, rights to benefits may exist without legal ownership of the underlying resource. For example, the rights to the benefits and the risks of a resource through the holding and use of leased property are accessed without legal ownership of the leased asset itself. Therefore, legal ownership is not an essential characteristic of an asset.
- BC13. The ability to access a resource is a further indicator of control. In some cases, the entity with the right to access a resource has the ability to determine whether to (a) directly use the resource’s service potential to provide services to beneficiaries; (b) exchange the benefits for another asset, such as cash; or (c) use the asset in any of the other ways that may provide benefits.

- BC14. While access to a resource is crucial there are resources to which an entity has access which do not give rise to assets, such as air. Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource. For example, (a) an entity might decide to set an entrance fee to a museum, or decide that there will be no such fee and (bi) an indication that the government has an asset of a natural resource under its land, is that the government can restrict the access of others to the land.
- BC15. Having concluded that (a) legal ownership; (b) access to benefits; and (c) the ability to restrict or deny the access of external parties to benefits are useful indicators of control, the IPSASB examined whether the economic ownership approach is a viable alternative to the control approach. The economic ownership approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity. Some respondents to CF–CP2, in supporting the control approach, commented on the complexity of the economic ownership approach. The IPSASB concluded that the economic ownership approach is subjective and difficult to operate and rejected this approach for that reason. The IPSASB then considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The IPSASB decided not to include economic ownership as an indicator of control, because it is not compatible with the control approach.
- BC16. The IPSASB also considered whether the other characteristics highlighted in paragraph BC10 have value in complementing the control approach. The IPSASB took the view that these characteristics can be useful indicators of the existence of control rather than determinants. For example, the inability of an entity to restrict or deny access of some external parties to a resource may lead to skepticism whether the resource constitutes an asset of the entity.

Past Events

- BC17. Some standard setters argue that identification of a past event is an essential characteristic of an asset. Others take the view that the identification of a past transaction or event is of less significance and should not therefore be an essential characteristic of an asset. They consider that such a requirement places undue emphasis on identifying the past event that gave rise to an asset. Such a focus may be a distraction and lead to debates about which event is the triggering event instead of focusing on whether the rights to benefits exist at the reporting date. Such standard setters consider that the essential characteristic should be the existence of a present resource. Some may accept that a past transaction might provide useful supporting evidence of the existence of a present resource.
- BC18. Most respondents to CF–CP2 took the view that a past event should be an essential characteristic of the definition of an asset. The IPSASB agreed with these respondents. In particular, the IPSASB considered that the complex nature of many public sector programs and activities means that there are a number of points at which a present resource might arise and therefore identification of the appropriate past event is crucial in identifying whether an asset is present.
- BC19. As highlighted in *Key Characteristics* the powers and rights of government are particularly significant in the crystallization of assets. Assets may be created in non-exchange transactions, and by virtue of the exercise of sovereign powers. The power to tax and issue licenses, and other powers to access or to deny or restrict access to the benefits embodied in

intangible resources like the electromagnetic spectrum are examples powers that private sector entities do not have. Given the significant powers that accrue to sovereign governments, and, in certain circumstances, other public sector entities, it is often difficult to determine when such powers have become a right that is a present resource and asset of the entity.

- BC20. Political proposals to create a government's power to create a right to levy a tax or fee, for example, often begin a sequence of events that ultimately results in the flow of economic benefits to the government. The IPSASB considered two views of whether the general ability to levy taxes or fees is an asset. The first view is that the government has an inherent power to tax at every reporting date and therefore that the general ability to levy taxes or fees is a perpetual asset. Proponents of this view accept that such an asset is unlikely to be capable of faithfully representative measurement, but that this should not deflect from the view that government has a perpetual asset. The countervailing view is that the power to levy taxes and fees must be converted into a right by legal means and that such a right must be exercised or exercisable in order for an asset to come into existence. Most respondents to CF–CP2 agreed with this latter view. The IPSASB agrees with these respondents. In particular, the IPSASB considers that the view that governments have inherent and perpetual assets is not in accordance with the objectives of financial reporting and that it does not meet the QC of understandability.

Section 3: Liabilities

A Present Obligation

BC21. In considering unconditional and unconditional obligations in the context of present obligations the IPSASB considered two sub-types of obligation that combine the features of both conditional and unconditional obligations. These are stand-ready obligations and performance obligations. The IPSASB explored whether the Framework should explicitly address these two sub-types.

Stand-Ready Obligations

BC22. Stand-ready obligations are obligations that require an entity to be prepared to fulfill the conditional obligation if a specified uncertain event occurs (or fails to occur). The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits. CF-CP2 included a discussion of stand-ready obligations. Many respondents indicated that the distinction between a conditional obligation and a stand-ready obligation is ambiguous.

BC23. The IPSASB formed a view that the notion of a stand-ready obligation is workable and valuable in certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties. In such circumstances there may be an identifiable past event and an outflow of resources, although the exact identity of the party to whom settlement will be made will not generally be known. However, the notion of a stand-ready obligation does not work well in a public sector non-exchange context where it is very difficult to distinguish a stand-ready obligation from other conditional obligations. Use of the term gives rise to assumptions that it will lead to liabilities related to the ongoing provision of social policies, which is an area that should be considered at the standards level. On balance, the IPSASB decided that use of the term in the Framework would not provide a sound basis for future standard setting.

Performance Obligations

BC24. A performance obligation is an obligation in a contract or other binding arrangement between a public sector entity and an external party to transfer a resource to that other party. Such obligations are sometimes referred to as deliverables. Many performance obligations are explicitly stated in a contract or other agreement. However, some performance obligations may be implicit, such as when a statutory requirement is imposed on a government or public sector entity that is additional to the terms of an agreement or contract.

BC25. A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded it is not necessary to identify a specific external party but it is important to analyze such obligations in order to determine whether they include a requirement to sacrifice resources. Obligations that require an entity to provide access to a resource, but do not entail an outflow of resources are not performance obligations and do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. The IPSASB concluded that, because performance obligations are conditional obligations and because the issues in determining whether such obligations give rise to liabilities is dependent upon the terms of particular binding agreements, use of the

term in the Framework would be useful in standards setting; however, it would not provide be comprehensive enough on which to base a Framework.

Past Event

- BC26. Some commentators, particularly certain standard setters, contend that identification of a past event is not an essential characteristic of a liability and that there is consequently no need for the definition of a liability to include a reference to a past event. They note that there may be many possible past events and that establishing the key past event is likely to be arbitrary. They suggest that it is more important to focus on whether a present obligation exists at the reporting date.
- BC27. The IPSASB acknowledged this view, but also noted that most respondents to CF–CP2 considered it necessary to include a specific reference to a past event. The IPSASB agreed with the view that the complexity of many public sector programs and activities and the number of potential points at which a present obligation might arise means that, although challenging, identification of the key past event that gives rise to a liability is of great importance in the public sector.

Little or No Realistic Alternative to Avoid

- BC28. In analyzing obligations that give rise to liabilities, standard setters have generally distinguished legal obligations and constructive obligations. This distinction seems clear-cut but can be ambiguous. Although constructive obligations are generally non-enforceable, certain constructive obligations may be legally enforceable in some jurisdictions.¹ While acknowledging that the term constructive obligations is embedded in global standard setting IPSASB decided to use that the term social or moral duty or requirement is clearer.

Interpreting Little or No Realistic Alternative

- BC29. The interpretation of the term “little or no realistic alternative to avoid” in the context of a liability is a crucial issue in the approach to liabilities in public sector financial reporting. In particular the IPSASB considered the issue of whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. The IPSASB acknowledged that determining when a present obligation arises in a public sector context is complex and, in some cases, could be considered arbitrary. In the context of programs to deliver social benefits there are a large number of points at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and, over time, within the same jurisdiction. For example, different age cohorts are likely to have different expectations about the likelihood of receiving benefits under a social assistance program. Such variation does not promote consistency and can mean that information reported on liabilities does not meet the QC of understandability.
- BC30. A converse view is that where a government has a record of honoring commitments, failing to recognize the obligations that flow from such commitments leads to an understatement of the true amount of that government’s liabilities. For example, if a government has a consistent

¹ In Anglo-Saxon jurisdictions the best known example of a constructive obligation that is legally enforceable is promissory estoppel. The doctrine of promissory estoppel prevents one party from withdrawing a promise made to a second party if the latter has reasonably relied on that promise.

record of meeting publicly-announced commitments to provide financial support to the victims of natural disasters, a failure to treat such obligations as liabilities is not in accordance with the objectives of financial reporting and, in particular, does not meet the QCs of faithful representation and relevance.

BC31. On balance, the IPSASB agreed with those who argue that, in the public sector, liabilities can arise from other obligations that are not legally enforceable. However, the IPSASB acknowledged the views of those who are skeptical that liabilities can arise from other than legally enforceable obligations. Therefore, the IPSASB decided to include supporting commentary on when a present obligation related to a social or moral duty or requirement is likely to arise. This commentary states that a social or moral obligation that gives rise to a liability embodies the following characteristics:

- (a) The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- (b) As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- (c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

BC32. The wide variation in the nature of public sector programs and operations and the different political and economic circumstances of jurisdictions globally means that categorical assertions of the circumstances under which social or moral duties or requirements give rise to present obligations are inappropriate. However, the IPSASB concluded that present obligations are extremely unlikely to arise from election promises. This is because electoral pledges will very rarely (a) create a valid expectation on the part of external parties that the entity will honor the pledge and (b) create an obligation which the entity has no realistic alternative but to settle. Therefore the Framework includes a rebuttable presumption that liabilities do not arise from electoral pledges or promises. In assessing whether a non-legally enforceable commitment or obligation gives rise to a liability the availability of funding to settle the commitment or obligation is likely to be a persuasive factor. Therefore the Framework includes a rebuttable presumption that where there is an explicit funding is available and explicitly linked to a social or moral obligation there is a rebuttable presumption that a present obligation exists

Sovereign Power to Avoid Obligations

BC33. The sovereign power to make, amend and repeal legal provisions is a key characteristic of governments. Sovereign power potentially allows governments to repudiate both obligations, arising from both exchange and non-exchange transactions, although, in a global environment, such a power may be constrained by practical considerations. However, there are a large number of examples of governments defaulting on financial obligations over the last century. The IPSASB considered the impact of sovereign power on the definition of a liability. The IPSASB concluded that failing to recognize obligations that otherwise meet the definition of a liability on the grounds that sovereign power enables a government to walk away from its obligations would be contrary to the objectives of financial reporting and, in particular, not in accordance with the QCs of relevance and faithful representation. Most

respondents to CF–CP2 supported this position. The IPSASB therefore concluded that the determination of whether a liability exists should be by reference to the legal position at the reporting date.

Section 4: Revenue and Expenses

Nature of Revenue and Expenses

- BC34. One approach to revenue and expenses is to take the view that they are secondary elements that result from changes in assets and liabilities. The IPSASB acknowledges that this approach has been adopted by many standard-setters globally. Another view is that revenue and expenses are flows that relate to the current period. There was considerable support for both positions by respondents to CF–CP2.
- BC35. The IPSASB formed a view that a focus on the current year activities of a public sector entity is important in providing information for the primary users of financial statements and thereby in achieving the objectives of financial reporting. This led to the conclusion that, in precisely defined circumstances, certain flows do not meet the definition of revenue and expenses, but are, rather, deferred inflows and deferred outflows. The rationale for defining deferred inflows and deferred outflows as elements is further considered in BC39–BC43. The IPSASB therefore took the view that the definition of expenses should reflect outflows of resources related to the provision of goods and services in a reporting period and the inflows of resources to finance such goods and services.
- BC36. Some private sector standard setters have structured their definitions of elements so that, for example, inflows and outflows arising from transactions and events relating to activities in the ordinary course of operations are distinguished from inflows and outflows that relate to activities outside the ordinary course of operations. An example of this approach is the definition of revenue, expenses, gains and losses as separate elements where revenue and expenses relate to entity’s “ongoing major or central operations” and gains and losses relate to all other transactions, events and circumstances giving rise to increases or decreases in net assets.²
- BC37. The IPSASB acknowledged that distinguishing transactions and events related to the ordinary course of operations from transactions and events outside the ordinary course of operations can provide useful information for those relying on the financial statements. It may be useful to adopt the terms gains and losses to connote inflows and outflows from transactions and events related transactions and events outside the ordinary course of operations. However, the IPSASB took the view that conceptually gains and losses do not differ from other forms of revenue and expenses, because they both result from net increase or decreases of assets. The IPSASB also noted that most respondents to CF–CP2 shared this view. Therefore the IPSASB decided not to define gains and losses as separate elements.
- BC38. As discussed in more detail in BC44–BC46, the IPSASB considered whether, and, if so, under what circumstances, ownership interests exist in the public sector. In the context of revenue and expenses the IPSASB considered whether transactions related to ownership interests should be excluded from the definitions of revenue and expenses. Because transactions with owners, in their capacity as owners are different in substance to other inflows and outflows of resources the IPSASB concluded that it is necessary to distinguish

² See for example Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 6: Elements of Financial Statements.

flows relating to owners from revenue and expenses and therefore definitions of elements should be developed for contributions from and distributions to owners.

Section 5: Deferred Inflows and Deferred Outflows

Nature of Deferred Inflows and Deferred Outflows

- BC39. As identified in *Key Characteristics* a highly important characteristic of the public sector is the prevalence of non-exchange transactions. Such arrangements include principally (a) involuntary transfers of resources, notably taxation, which may be received prior to the period in which they are intended to finance the provision of goods and services and (b) transfers of resources with timing restrictions or expectations and no performance or return obligations. Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly important for accountability and decision-making purposes. It is therefore important to be able to show separately flows of revenue and expenses which relate to another reporting period. There are a number of ways in which such user needs can be satisfied. The IPSASB identified and considered:
- Defining deferred inflows and deferred outflows as separate elements;
 - Broadening the asset and liability definitions to include deferred inflow and deferred outflows³;
 - A presentational approach along the lines of “other comprehensive income” (OCI) in International Financial Reporting Standards (IFRSs) would have to be developed and adopted; and
 - Dealing with deferred inflows and deferred outflows through note disclosure or in the Financial Statement Discussion and Analysis (FSDA).
- BC40. The IPSASB considered that broadening the definition of an asset and liability distorts the essence of these elements, because, in the case of assets, it would lead to the inclusion of resources that an entity does not, in substance, control and in the case of liabilities obligations that are not “present obligations.” Such an approach would not be easily understandable to many users and would be contrary to the QC of faithful representation. A sub-classification of net assets/net liabilities would only partially compensate for this, because it relegates the results of potentially major flows to a sub-category of the residual amount (net assets/net liabilities).
- BC41. The use of a presentational approach such as one similar to OCI in IFRS would have to be considered on an issue-by-issue basis at the standards level. The IPSASB considered that dealing with deferred inflows and deferred outflows through note disclosure or in the FSDA is contrary to the principle that disclosure is not a substitute for recognition, which is stated in Section 7 of this phase of the Framework.
- BC42. The IPSASB therefore concluded that the most transparent approach is to define deferred inflows and deferred outflows as separate elements. In coming to this view the IPSASB considered it likely that, if separate elements are not defined, the treatment of flows that are deemed applicable to future reporting periods is likely to be addressed on an issue-by-issue basis at the standards level using ambiguous and potentially conflicting principles.

³ This approach could be supplemented by sub-classifying net assets/net liabilities to include information about deferred inflows and deferred outflows.

Non-exchange Transactions as an Essential Characteristic of Deferred Inflows and Deferred Outflows

- BC43. The IPSASB acknowledges reservations that deferred inflows and deferred outflows might be used inappropriately or would require the element to be only applied when specifically authorized in a standard. An example which has been put forward by those who oppose the development of such elements is redundancy costs. It has been suggested that a deferred outflow element could be used to spread certain redundancy costs over several reporting periods based on an assertion that these costs will produce cost savings and therefore a reduction of outflows of resources over a number of subsequent reporting periods, such as taxation inflows received in advance of the period to which they relate and multi-year grants with no substantive performance obligations and no return obligations. To address these concerns, the IPSASB concluded that deferred inflows and deferred outflows are only appropriate in circumstances that are specific to, or prevalent in, the public sector. Therefore, the elements of deferred inflows and deferred outflows include as an essential characteristic that the flow arises from a non-exchange transaction.

Section 6: Net Assets/Net Liabilities; Contributions from Owners and Distributions to Owners

- BC44. The IPSASB's decision to propose the elements of deferred inflows and deferred outflows means that net assets/net liabilities has less significance than net position. Net position is regarded is the aggregate of an entity's assets and deferred outflows less an entity's liabilities and deferred inflows at the reporting date. The IPSASB considered whether net position is a residual amount, a residual interest or an ownership interest. The IPSASB acknowledged the view that the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver goods and services in the future and in the net resources that may be available for redirection, restructuring or alternative disposition as similar to an ownership interest. The IPSASB also accepts that the terms residual interest and ownership interest have been used in some jurisdictions to characterize net assets/net liabilities. The term residual interest indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations. The term ownership interest is analogous to the ownership interest in a private sector entity and indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some argue that this emphasizes the democratic accountability of governments.
- BC45. The IPSASB took the view that the term residual interest may suggest that service recipients and resource providers have a financial interest in the public sector entity. Similarly the term ownership interest suggests that citizens are entitled to distributions from the public sector entity and to distributions of any excess of assets and deferred outflows over liabilities and deferred inflows in the event of the entity being wound up. The IPSASB therefore concluded that the terms residual interest and ownership interest can be misunderstood or misinterpreted, and that net position is a residual amount that should not be defined. Treating net position in such a way is more straightforward and understandable.
- BC46. The IPSASB acknowledged that net position can represent an ownership interest. Such instances may be evidenced by the entity having a formal equity structure, but there may be instances where an entity is established without a formal equity structure, but with a view to sale for operation as a commercial enterprise or by a private sector not-for-profit entity. The IPSASB therefore considered whether "ownership interests" should be defined as an element. The IPSASB acknowledges the view that identifying the resources (or claims on future resources) attributable to owners provides information useful for accountability and decision making purposes. However, the IPSASB concluded that "ownership interests" in the public sector are not sufficiently prevalent to justify their definition as a separate element and that, in any case, such interests can be identified through the sub-classification of net position. However, the IPSASB also concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their capacity as owners, from revenue, expenses, deferred inflows and deferred outflows. Therefore contributions from owners and distributions to owners are defined in the Framework.

Section 7: Recognition

Disclosure as an Inadequate Substitute for Recognition

- BC47. In some jurisdictions there has been a practice of disclosing economic phenomena that meet the definition of an asset and the recognition criteria in the public sector disclosure. While it may seem to be making an obvious statement the IPSASB considered that the principle that disclosure is not a substitute for recognition should be explicitly stated.

Existence Uncertainty and Measurement Uncertainty

- BC48. In common with numerous other standard setters the IPSASB identified two types of uncertainty: existence uncertainty and measurement uncertainty. During the development of CF–CP 2, the appropriate location for addressing recognition was considered. The IPSASB noted that, given that a key component of recognition is whether an item that meets the definition of an element can be measured in a faithfully representative way there is a case for addressing recognition with measurement in Phase 3 of the project. There is also a view that measurement uncertainty relates to presentation, because a decision on whether an item that meets the definition of an element can be measured in a faithfully representative way determines how and whether that item is presented.
- BC49. The IPSASB concluded that CF–CP 2 should include a section on recognition. However, the IPSASB took the view that existence uncertainty should be addressed within the commentary on “control” for the asset definition and “little or no alternative to avoid” for the liability definition (see paragraphs. It was acknowledged that evidence thresholds, such as probable or virtually certain, might be easily understandable and have cost-benefit advantages, as they avoid preparers having to apply potentially expensive measurement estimation techniques. However, the use of thresholds introduces bias into the financial statements and is not in accordance with the QC of faithful representation. Therefore the IPSASB concluded that in dealing with existence uncertainty preparers should assess all the available evidence rather than using thresholds.
- BC50. At this stage the IPSASB decided to include commentary on measurement uncertainty in this draft of the ED. However, the IPSASB acknowledges the view that measurement uncertainty might be better located in Phase 4.