

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 16-19, 2013

Agenda Item 4

For:

Approval

Discussion

Information

Conceptual Framework

Objective(s) of Agenda Item

1. The objectives of the sessions on the Conceptual Framework are:
 - To (a) **provide** a very preliminary high level summary of responses to Exposure Draft, *Presentation in General Purpose Financial Reports*, (CF-ED4); (b) **review** the current timetable for the project and to **decide** whether the current timetable should be amended; (c) to **update** members on developments in the IASB Conceptual Framework project, in particular the publication of a Discussion Paper, and to highlight issues arising from that Discussion Paper for the IPSASB project; and (d) **note** that the Preface has been made available as Preliminary Board View.
 - To **continue** the review of responses received to the Exposure Draft, *Elements and Recognition in Financial Statements* (CF-ED2), staff responses to directions of IPSASB at its July meeting 2013 meeting and, in particular, discuss financial performance and financial position in the context of deferred inflows and deferred outflows; and
 - **To continue the review** of responses received to the Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (CF-ED3) and to obtain directions for development of the final chapter.

Material(s) Presented

Agenda Item 4.1	Coordinator's Report
Agenda Item 4A	Further review of responses to Exposure Draft, <i>Elements and Recognition in Financial Statements</i> and Issues Paper
Agenda Item 4B	Further review of responses to Exposure Draft, <i>Measurement of Assets and Liabilities in Financial Statements</i> and Issues Paper

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT**Objectives of Report**

1. The objectives of this report are to:
 - **Provide** a very high level summary of the initial Staff perceptions on the response to Conceptual Framework Exposure Draft 4 (CF–ED4), *Presentation in General Purpose Financial Reports*;
 - **Highlight** the most up-to-date version of the project timetable;
 - **Propose** that the date for approval of the remaining chapters of the Framework and the *Preface to the Conceptual Framework* should be put back to June 2014;
 - **Highlight** the publication of International Accounting Standards Board's (IASB) Discussion Paper (DP), *A Review of the Conceptual Framework for Financial Reporting*, and some of the most significant preliminary views in that DP; and
 - **Note** that *The Preface to the Conceptual Framework* has been made available as a Preliminary Board View.

Very Preliminary High Level Summary of Responses to CF–ED4

2. CF–ED4, *Presentation in General Purpose Financial Reports* (CF–ED4), was issued in April 2013, with a request for comments by August 15, 2013. 28 responses had been received by August 20, 2013. These responses have been posted onto the IPSASB section of the IFAC website. Further responses received after August 20 will also be posted to the website.
3. Staff's high-level preliminary assessment is that responses generally were supportive of the approach in CF–ED4. However, there were a minority of critical respondents.
4. The main issues raised by respondents were
 - (a) Terminology: Concerns that (i) "display" and "disclosure" descriptions imply that financial statement note disclosures are less important than displayed information and always have to relate to displayed information; (ii) the IPSASB terminology differs unnecessarily from generally accepted terminology; and, (iii) terminology should be consistent with IASB Conceptual Framework developments, where "disclosure" applies to information made available regardless of location (face or notes to the financial statements).
 - (b) Location decisions: Whether location decisions should be treated as a subset of information organization decisions, instead of being treated as a third type of decision.
 - (c) Fundamental to the approach:
 - (i) Opposition to development of presentation concepts applicable to both financial statements and other reports;

- (ii) Support for development of a “disclosures framework”, which would include a description of relative responsibilities for decisions (preparer, standard setter, auditor); and
 - (iii) CF–ED4’s coverage is insufficient on the basis that it is (i) not useful, (ii) guidance rather than concepts, and, (iii) repeats coverage already in Chapters 1 to 4 of the Conceptual Framework.
5. A small number of respondents proposed substantial changes to improve the ED’s usefulness. Some respondents also identified editorial changes to improve the ED’s clarity.

Project Timetable

6. A revised project timetable was circulated following the June 2013 meeting. A further version is attached at Appendix A. This indicates that the *Preface to the Conceptual Framework* was made available as a Preliminary Board View in late April 2013.
7. The timetable projects approval of the chapters from Phases 2-4 of the Framework and the Preface in March 2014. At the June 2013 meeting it was agreed that there would be a more detailed discussion of the timetable at this meeting.
8. Staff considers that the projected approval date of March 2014 is too tight. In particular, despite the preliminary Staff view that the responses to CF–ED4 were generally supportive, Staff considers that allowing one meeting for a review of responses to CF–ED4 and a further meeting for review and approval of a final chapter on Presentation is unrealistic. Staff considers that two meetings are necessary to develop and approve a final chapter on Presentation. Putting back the approval date to June 2014 would also allow an additional meeting for discussion of the final chapters on Elements and Recognition and Measurement. In particular this would give more time to develop and refine the discussion of financial position and performance in Phase 2.
9. In accordance with normal procedure the timetable will be updated and circulated shortly after this meeting.

Matter(s) for Consideration

1. The IPSASB is asked to **agree** that the date for approval of the remaining chapters of the Framework should be put back until June 2014.

IASB Conceptual Framework

10. The IASB published a Discussion Paper (DP), *A Review of the Conceptual Framework for Financial Reporting*, on July 18, 2013.¹ There is an exposure period of just under six months that expires on January 14, 2014. The IASB is supporting the consultation through a number of outreach events in London, Toronto, Sao Paulo and Tokyo in October and November 2013.
11. The DP includes numerous examples and references to issues in current International Financial Reporting Standards. It contains a number of preliminary views; considerably more than the Consultation Papers on the Framework issued by the IPSASB. The DP includes an acknowledgement that the IASB has considered the work of the IPSASB to develop its Conceptual

¹ The IASB also published a Snapshot.

Framework. The DP recognizes that because the IPSASB sets International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines for the public sector differences between the frameworks being developed by the IPSASB and the IASB might arise. IPSASB Staff will briefly discuss the linkages between the IPSASB and the IASB on the frameworks at the Standards Advisory Council meeting in London in October 2013.

12. The DP includes the text of Chapters 1, *The Objective of General Purpose Financial Reporting*, and Chapter 3, *Qualitative Characteristics of Useful Financial Information*, as appendices. These chapters were completed before the IASB–Financial Accounting Standards Board joint project on the Framework was deactivated in 2010. As indicated previously the IASB does not intend to fundamentally reconsider the content of these chapters, but will make changes to these chapters if work on other areas of the Framework suggests that material needs amending or clarifying. Section 9 of the DP also discusses stewardship, reliability and prudence.
13. In addition an appendix to the DP summarizes the proposals of the ED on the reporting entity issued in March 2010 and the comments received on that ED. It is expected that the ED on the Framework to be issued in 2014 will include a section on the reporting entity
14. The following sections include some points in the DP that Staff considers useful to highlight. This is not a summary of the DP and does not highlight some of the important areas considered which have limited public sector significance. These include the definition of equity and the distinction between liabilities and equity.

Elements and Recognition

- Definitions of the following elements are proposed:
 - Assets;
 - Liabilities;
 - Equity;
 - Income; and
 - Expense.
- Draft definitions of the proposed elements are shown in the table below together with the elements proposed by the IPSASB

Definitions of Elements Proposed by IASB and IPSASB

ELEMENT	IASB	IPSASB
Asset(s)	A present economic resource controlled by the entity as a result of past events	An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.
Liability(ies)	A present obligation of the entity to transfer an economic resource as a result of past events	A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.
Income/Revenue	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets and decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants	(a) Inflows during the current reporting period, which increase the net assets of an entity, other than: <ul style="list-style-type: none"> (i) Ownership contributions; and (ii) Increases in deferred inflows; and (b) Inflows during the current reporting period that result from decreases in deferred inflows
Expense(s)	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions from equity participants	(a) Outflows during the current reporting period which decrease the net assets of an entity, other than: <ul style="list-style-type: none"> (i) Ownership distributions; and (ii) Increases in deferred outflows; and (b) Outflows during the current reporting period that result from decreases in deferred outflows

Deferred Inflows	Not Applicable	A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets.
Deferred Outflows	Not Applicable	A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.
Equity	Residual interest in the assets of the entity after deducting all its liabilities	Not Applicable
Ownership Contributions	Not Applicable	Inflows of resources to an entity, contributed by external parties that establish or increase an interest in the net assets of the entity.
Ownership Distributions	Not Applicable	Outflows of resources from the entity, distributed to external parties that return or reduce an interest in the net assets of the entity.

- In the context of the definitions of assets and liabilities the draft definition of an economic resource is: *An economic resource is a right, or other source of value, that is capable of producing economic benefits.*
- The DP also acknowledges that further elements for the statement of cash flows and the statement of changes in equity may be necessary. The DP does not propose definitions for these elements, but does not foresee difficulties in developing definitions for the ED planned for 2014 if considered appropriate; a question asks whether it would be helpful for the Conceptual Framework to identify them as elements of financial statements. These elements are:

- Cash receipts;
 - Cash payments;
 - Contributions of equity;
 - Distributions of equity;
 - Transfers between classes of equity;
- The DP acknowledges the distinction in the existing Framework between (i) revenue arising in the course of the ordinary activities of an entity and gains, which represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of the entity; and (ii) expenses that arise in the course of the ordinary activities of an entity and losses, which may, or may not, arise in the course of the ordinary activities of the entity. Distinguishing these four items would require ordinary activities to be defined. The IASB believes that the process of deciding whether to distinguish these four items would be best carried out in a separate project on financial statement presentation rather than in the Conceptual Framework;
 - The IASB does not propose to define separate elements for income and expenses reported in profit or loss and income and expenses reported in Other Comprehensive Income (OCI);
 - The DP has a preliminary view that the definition of a liability should not be limited to obligations that are enforceable by legal or equivalent means;
 - Stand-ready obligations are obligations where the requirement to transfer an economic resource depends on the occurrence of one or more future events that are outside the control of the entity. The IASB has concluded that these unconditional obligations are present obligations that meet the definition of a liability;
 - In the context of conditionality where the eventual need to transfer economic resources is dependent on the entity's future actions the DP examines three views and applies these views to a number of scenarios. The DP also explores the implications of these views for emissions trading schemes. The IASB has not established a consensus or preliminary view on a specific approach. However, IASB has rejected the view that obligations must be strictly unconditional in order for a liability to arise;
 - There are few perceived problems with the definitions of income and expenses in the current Framework and any changes to those definitions are likely to be limited to minor drafting changes resulting from changes to the definitions of the other elements;
 - The DP indicates that the IASB could improve the existing brief material on executory contracts in the existing Framework by explaining the nature of the rights and obligations that arise under executory contracts and other forward contracts and why those rights and obligations might not be recognized as an asset or liability;
 - The analysis of recognition distinguishes existence uncertainty and outcome uncertainty. The latter is broadly similar to what the IPSASB has termed "measurement uncertainty". The DP states that the Conceptual Framework should not set a probability threshold to determine whether an asset or liability exists, in the rare cases when this is uncertain. If there is significant uncertainty is significant in a particular project, the IASB would decide on appropriate thresholds in that project;

Measurement

- The DP has a preliminary view that the objective of measurement is "to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governance board have discharged their responsibilities to use the entity's resources";
- While acknowledging the seeming advantages of a single measurement basis the preliminary view in the DP is that such an approach would often not provide relevant information and that the Conceptual Framework should not recommend measuring all assets and liabilities on the same basis;
- The number of different measurements used should be the smallest number necessary to provide relevant information;
- The DP groups measurement into three categories
 - Cost-based measurements
 - Current market prices
 - Other cash-flow-based measurements
- Cost-based measures include what IPSASB has termed historical cost. The DP provides a definition of cost derived from IAS 16, *Property, Plant and Equipment*, IAS 38, *Intangible Assets* and IAS 40, *Investment Property*: *the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction*;
- The CP notes that at standards-level what is to be included in cost is further specified. The initial; cost-based measures can be adjusted subsequently for a variety of reasons including depreciation or amortization, accrual of interest, accretion of discount or amortization of premium and impairment or a liability becoming more onerous;
- There is a brief discussion of deprival value which is broadly similar to the discussion in the Basis for Conclusion in the IPSASB Consultation Paper on Measurement;
- The DP states that fair value is the most frequently used current value measurement in existing IFRSs and provides the definition in IFRS 13, *Fair Value Measurement*: *price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is acknowledged that this is an exit price*;
- It is acknowledged that current market prices are often not directly observable and need to be estimated. This gives rise to issues of relevance, disclosures related to faithful representation and cost-benefit considerations;
- The DP suggests that an exit price is likely to be relevant when an asset is held for sale. In contrast entry prices might provide more relevant information when assets are held for use rather than for sale or exit prices are unavailable or do not reflect orderly transactions between willing buyers and sellers;

- The other cash-flow-based category acknowledges that such measures are neither current market prices nor cost-based. The DP indicates that such measurement are currently used in IFRSs for:
 - Impairments of financial assets, lease receivables and lease liabilities carried at amortized cost;
 - Impairment of non-financial assets;
 - Net realizable value of inventories;
 - Provisions;
 - Liabilities for post-employment benefits; and
 - Deferred tax assets and liabilities.
 - *(There are IPSASs on all these topics except for deferred tax assets and liabilities)*
- The relevance of a particular measurement at both initial recognition and subsequently will depend on how investors, creditors and other lenders are likely to assess how an asset or liability will contribute to the entity's future cash flows; and
- The DP discusses entity and market perspectives. It suggests that the use of a particular perspective depends on two factors—the availability of market information and the likely relevance of each perspective for the specific asset or liability. The market perspective may be particularly relevant for assets that will be sold without significant selling effort. The entity-specific perspective may be more relevant for some assets held for use and for liabilities that will be settled by performing services.

Presentation

- The DP uses the term “presentation” to denote disclosure of financial information on the face of an entity's primary financial statements. “Disclosure” is a broader term: the process of providing useful financial information about the reporting entity to users. The DP states that the financial statements including the amounts and descriptions presented in the primary statements;
- Unlike the IPSASB's Framework the DP identifies the primary financial statements:
 - The statement of financial position;
 - The statement of profit or loss and OCI (or the statement of profit or loss and the statement of comprehensive income);
 - The statement of changes in equity; and
 - The statement of cash flows
- The DP proposes that the objective of the primary financial statements is to provide summarized information about recognized assets, liabilities, equity, income, expenses, changes in equity and cash flows that has been classified and aggregated in a manner that is useful to users in making decisions about providing resources to the entity.

- The notes to the financial statements support the primary financial statements. They supplement the primary financial statements by providing additional useful information about:
 - The assets, liabilities equity, income, expenses, changes in equity and cash flows of the entity; and
 - How efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- The DP provides some examples of types of disclosures that may provide information that meets the objectives of notes:
 - Reporting entity
 - Amounts recognized in the primary financial statements
 - Unrecognized assets or liabilities
 - Risks
 - Methods, assumptions and judgments
- Although the IASB considers that the concept of materiality is clearly described in the existing Conceptual Framework the IASB is considering providing additional material on the application of materiality with particular reference to disclosures; and
- The DP puts forward a number of communication principles. These principles include disclosure organization and disclosure linkage.

Profit and Loss and Other Comprehensive Income

- The DP does not propose a definition of financial performance. Furthermore the DP does not equate financial performance with total comprehensive income, profit or loss or any other total sub-total or other commonly used performance measure;
- The DP summarizes the arguments for and against recycling. The DP gives a preliminary view that the Framework should require a profit or loss total or sub-total that also results or could result, in some items of income or expenses being recycled from OCI; and
- The DP discusses two approaches to determining which items should be included in OCI: a narrow approach and a broad approach:
 - Under the narrow approach what are termed "bridging items" and "mismatched remeasurements" are included in OCI; and
 - Under the broad approach what are termed "transitory remeasurements" would also be included in OCI in addition to "bridging items" and "mismatched remeasurements."

Matter(s) for Consideration

2. The IPSASB is asked to **note** the publication of the IASB's Discussion Paper and the point raised by Staff.

Preface to the Conceptual Framework

15. At the June meeting the IPSASB directed that the *Preface* (formerly *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*) should be made available as a Preliminary Board View. The Preface was posted to the IPSASB section of the IFAC website on July 31, 2013.

Matter(s) for Consideration

3. The IPSASB is asked to **note** that the Preface has been made available as a Preliminary Board View.

Appendix A: Conceptual Framework Project Timetable 2010–2014

	Phase 1: Objectives, QCs, Scope & RE	Phase 2: Elements and Recognition	Phase 3: Measurement	Phase 4: Presentation	Key Characteristics of Public Sector
Dec 2010	<i>ED Issued</i>	<i>CP Issued</i>	<i>CP Issued</i>		<i>Made available on web as Staff Draft</i>
Mar 2011				<i>CP Discussed</i>	<i>ED Approved (Issued in April)</i>
Jun 2011				<i>CP Discussed</i>	
Sep 2011	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>CP Discussed</i>	
Dec 2011	<i>RR Directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>CP Approved (Issued January 2012)</i>	
Mar 2012	<i>FC Review and directions to Staff for finalization</i>	<i>RR Further directions to Staff</i>			<i>RR Directions to Staff</i>
Jun 2012		<i>ED Discuss</i>	<i>ED Discuss</i>		
Sep 2012	<i>Decision to approve FC in December and publish in late December 2012 or January 2013</i>	<i>ED Approved Published in November 2012</i>	<i>ED Approved Published in November 2012</i>	<i>RR Directions to Staff</i>	<i>Decision to approve in December and publish in late December 2012 or January 2013</i>
Dec 2012	<i>FC Approved Published in January 2013 (Note A4)</i>			<i>ED Discuss</i>	<i>FC Review and Directions to Staff for finalization (Note A5)</i>
Mar 2013				<i>ED Approved Published in April 2013 (Note A3)</i>	<i>FC Review and further Directions to Staff for finalization (Note A5)</i>
June 2013		<i>RR Initial directions to Staff</i>	<i>RR Initial directions to Staff</i>		<i>Direction to make available on website as Preliminary Board View</i>
Sept 2013		<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>		
Dec 2013		<i>FC Review and directions to Staff for finalization</i>	<i>FC Review and directions to Staff for finalization</i>	<i>RR Directions to Staff</i>	
Mar 2014		<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>

Key: ED: Exposure Draft, DI: Discussion of Issues, RR: Review of Responses, FC: Final Chapter, CP: Consultation Paper

Assumptions and Accompanying Information

- A1. There was an exposure period of six months for the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers—comment period ended mid-June, 2011. There was an exposure period of four months for the Phase 4 Consultation Paper—comment period ended late-April 2012.
- A2. There is a six-month exposure period for Phase 2 and Phase 3 EDs—comment period ended late April 2013.
- A3. There was an exposure period of four months for the Phase 4 ED —comment period ended on August 15th 2013.
- A4. The Phase 1 Chapters were approved in December 2012 and published in January 2013.
- A5. An ED, *The Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)*, was made available as a Staff draft with the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers in December 2010. It was approved in March 2011 as an IPSASB document and issued in April 2011 with a consultation expiry date of August 31, 2011. The IPSASB reviewed responses in March 2012 and decided to further develop the text of *Key Characteristics* with a view to its inclusion in the Framework as an Introduction or Preface. At the September 2012 meeting the IPSASB directed that *Key Characteristics* be updated in the form of a preface and brought back to the December 2012 meeting, along with the Phase 1 final chapters with a view to incorporation in the Framework. At the December 2012 meeting the IPSASB confirmed that such a Preface should be included in the Framework. At the March 2013 meeting it was decided to defer finalization of the Preface until the Conceptual Framework has been completed, or substantially completed, so that linkages between the characteristics identified in the Preface and concepts can be made more explicit. The Preface was made available as a Preliminary Board View in July 2013.
- A6. The finalization of Phases 2, 3 and 4 will include a check for consistency with the Introduction, Preface and Phase 1 chapters.
- A7. There is no current presumption that an integrated (umbrella) ED of the proposed Conceptual Framework will be issued.
- A8. Projection is to issue the finalized Framework in first half of 2014.