

Meeting: International Public Sector Accounting Standards Board

Meeting Location: New York, USA

Meeting Date: March 10–13, 2020

Agenda Item 9

For:
 Approval
 Discussion
 Information

LIMITED SCOPE UPDATE OF CONCEPTUAL FRAMEWORK

Project summary	The project objective is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility and prevalence with a particular emphasis on the first three of these criteria.	
Meeting objectives	<i>Topic</i>	<i>Agenda Item</i>
Project management	Limited Scope Update of Conceptual Framework – Project Roadmap	9.1.1
	Instructions up to Previous Meeting	9.1.2
	Decisions up to Previous Meeting	9.1.3
Decisions required at this meeting	Approval of the Limited Scope Update of Conceptual Framework Project Brief	9.2.1
Other supporting items	Limited Scope Update of Conceptual Framework – Project Brief and Outline	9.3.1

**LIMITED SCOPE UPDATE OF CONCEPTUAL FRAMEWORK:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	Approval of Limited Scope Update of Conceptual Framework Project Brief
September 2020	Approve Exposure Draft (ED) Phase 1
December 2020	Approve ED Phase 2
February 2021	ED Comment Period (four months): Phase 1
May 2021	ED Comment Period (four months) Phase 2
June & September 2021	Review of Responses to EDs
December 2021	Approve Final Revisions

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	1. (None—project brief to be presented for approval at this meeting.)	1. N/A

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
N/A	1. (None—project brief to be presented for approval at this meeting.)	1. N/A

Approval of the Limited Scope Update of Conceptual Framework Project Brief

Question

1. The IPSASB is asked to approve the project brief for the Limited Scope Update of the Conceptual Framework (Limited Scope Update).

Detail

2. At the September 2018 meeting, the IPSASB decided to add a Limited Scope Review of the Conceptual Framework to the list of new public sector specific projects in the 2019-2023 work program. The
3. The Staff developed the draft project brief for the Limited Scope Update following discussion with the IPSASB Consultative Advisory Group (CAG) in December 2019.
4. The IPSASB is asked to review the attached draft project brief and outline, in particular, the Staff highlight the following sections:
 - (a) The scope of the project, which is limited to a small number of issues based on the criteria of urgency, consequences, feasibility and prevalence with a particular emphasis on the first three of these criteria (paragraphs 3.1,3.2 and 4.3).
 - (b) The issues proposed for inclusion in the scope in section 4 of the project brief and outline. Key Issues #2-#6, related to measurement will be addressed in phase 1 of the project.
 - (c) The issues, which following discussion with the CAG, staff and Chair have been excluded from the scope
5. There will be a discussion of common issues linkages between phase one of this project and the Measurement project on the last day of the March meeting.

Decision Required

6. Does the IPSASB approve the attached Limited Scope Update of Conceptual Framework – Project Brief and Outline?
7. Are there any issues that have not been identified?

Agenda Item 9.3.1 – Limited Scope Update of Conceptual Framework Project Brief and Outline.

LIMITED SCOPE UPDATE OF CONCEPTUAL FRAMEWORK

PROJECT BRIEF AND OUTLINE

1. Introduction

- 1.1. [The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities](#) (the Framework) was approved in September 2014 and issued in October 2014. A [webinar](#) was issued early in 2015. Publication of the Framework filled a major gap in the IPSASB's literature. Until 2014 the IPSASB had been implicitly reliant on the former International Accounting Standards Committee's (IASC) *Framework for the Preparation and Presentation of Financial Statements*, which was published in 1989. The International Accounting Standards Board (IASB) adopted this document shortly after its inception in April 2001.
- 1.2. On approval in September 2014 the IPSASB decided not to commit to a review of the Framework. Although views were expressed that the Framework should be a 'living document' subject to regular updates there was a broader view that it should be allowed to bed down for a significant period. The decision also reflected the amount of Board time devoted to the Framework, particularly in the four to five years prior to approval and, to a lesser extent, that over-frequent updates might diminish the accountability of the Board, which the Framework is supposed to promote.
- 1.3. In 2018, after having been applied in standards development for over three years the IPSASB considered that a limited scope review of the Framework would be appropriate. This view was reinforced by the fact that the IASB was shortly to issue its finalized Conceptual Framework reflecting post-2014 developments of potential significance. The IPSASB therefore proposed such a project in its Strategy and Work Plan Consultation in 2018. The proposed project received significant support from respondents for the reasons outlined by the IPSASB and is one of two projects that the IPSASB committed to initiate in the 2019-2020 period.
- 1.4. Participants at the June 2019 Public Sector Standard Setters Forum (Forum) in Niagara-on-the-Lake, Canada, discussed the committed project to provide input and views on the issues that should be within scope. Although the Forum attendees confirmed support for their addition to the work program. there were significant differences of opinion as to which issues should be addressed in the Framework review.
- 1.5. The Consultative Advisory Group (CAG) discussed the project at its meeting in Abu Dhabi in December 2019. Staff presented [a paper](#) with the drivers for the project and the classification of potential issues as Urgent, Significant and Less Significant. CAG members supported both the drivers (see below) and, in general, the classification of issues. A number of CAG members also raised the prospect of reputational risk if IPSAS is not aligned with the Framework. Although not explicitly discussed staff note that the approach to recognition in Chapter 6 of the Framework has not been reflected at standards level. Key Issue #5, which was not explicitly discussed with the CAG, has been included in the project brief following consideration of responses to the Consultation Paper, *Measurement*. However, it is a fair value-related issue and therefore responds to the concerns expressed by CAG members.

2. Rationale for Project

- 2.1. As noted above, the project was added to the IPSASB's work program after consultation with constituents on the Strategy and Work Plan 2019-2023. There are two project drivers:
- (a) Developments in the International Accounting Standards Board's (IASB's) revision of its Conceptual Framework after September 2014.
 - (b) Experience in using the Conceptual Framework in developing new pronouncements and maintaining existing IPSAS since approval in September 2014.

3. Financial Reporting Requirements

- 3.1 The Framework establishes the concepts that are to be applied in developing IPSAS and Recommended Practice Guidelines (RPGs). RPGS provide guidance on financial reporting issues outside the core financial statements. The Framework is non-authoritative and does not override requirements in IPSAS. Nevertheless, the Framework underpins standards development and the IPSASB will explain reasons for departure from the Framework in the Bases for Conclusions of particular pronouncements. The project has strong links to the Measurement project. It is particularly important that the project progresses in step with the Measurement project and that the ED of proposed amendments to the Measurement Chapter of the Framework is issued at the same time as ED XX, *Measurement*.

4. Project Objective

- 4.1 The project objective is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility, and prevalence with a particular emphasis on the first three of these criteria.

Achieving the Objective

- 4.2 In view of the limited scope of the project, the view is that a Consultation Paper is unnecessary, and given the short project timelines it is not proposed that a Task Force will be formed. However, there will be linkage with the Measurement Task Force and also the Task Forces on Heritage and Infrastructure. Staff involved in the project will participate in the in-person Measurement Task Force meeting planned for July 2020.
- 4.3 To achieve the objective the IPSASB will:
- Determine an appropriate and manageable scope for the project by applying the criteria for project prioritization in the Strategy and Work Plan 2019-2023, particularly urgency, consequences and feasibility;
 - Consider the links to other projects (the Measurement project); and
 - Formulate a communications plan to manage external expectation, particularly explaining that the Update is not a full -scale review of the Framework.

Link to the IPSASB's Strategic Objective

- 4.4 The IPSASB's Strategy and Work Plan 2019-2023 *Delivering Global Standards. Inspiring Implementation*, cites an overarching strategic objective as:

Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

Delivered through two main areas of activity, both of which have a public interest focus:

- Developing and maintaining IPSAS and other high-quality public sector financial reporting guidance for the public sector; and
- Raising awareness of the IPSAS and the benefits of their adoption.”

4.5 This project is consistent with the IPSASB’s strategic objective because the Framework underpins the development and maintenance of IPSAS and RPGs. The project has a pervasive impact on Themes A-C of IPSASB’s current Strategy.

5 Outline of the Project

Project Scope

5.1 The scope of this project is to update the Conceptual Framework in specified areas. Key Issue #1 explains the scope issue. The key issues will be addressed in two phases: Key Issues #1-#6 are in Phase 1 while Key Issues #7-#10 are in Phase 2.

Key Issues

Key Issue # 1–Scope

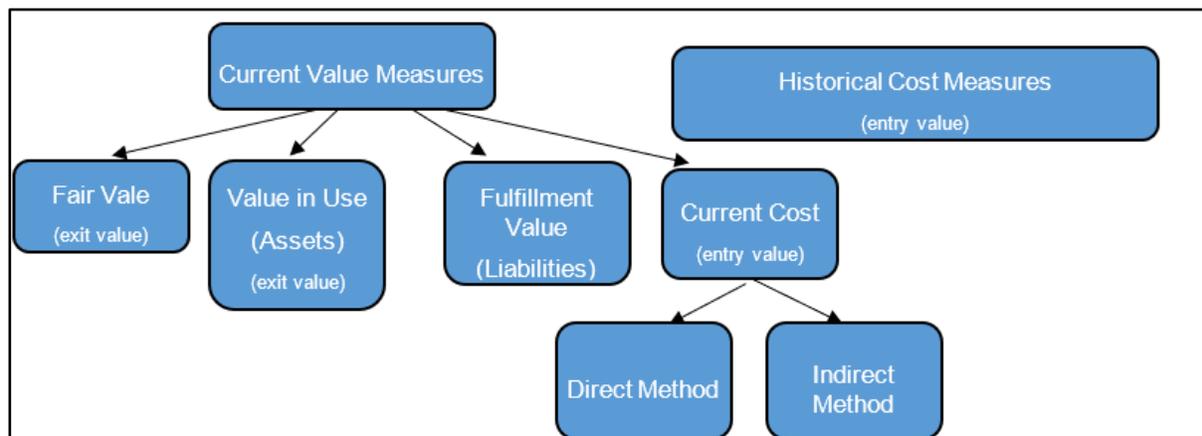
5.2 The project is limited in its scope as indicated by its title. It is not a full review of the Framework and does not address all issues or potential issues related to the Framework. The development of the Framework took a large proportion of meeting agenda time in the 2006-2014 period and it is important that other projects on the work program are not ‘crowded out’ by the Framework. Therefore, the focus is largely, but not fully, on issues which, if not addressed, are likely to mean that the Framework will be misaligned with the outputs from the Measurement project, and on issues that will lead to misalignment with IASB literature for no public sector reason.

Key Issue # 2–Impact of revised IASB Measurement Chapter

5.3 The finalized IASB Measurement chapter was restructured from that outlined in the IASB’s 2013 Discussion Paper. This new structure brought the IASB approach closer to IPSASB, although there are important differences. Unlike the IASB Framework, the IPSASB Framework explicitly includes a measurement objective linked to the provision of information on operational capacity, financial capacity, and the cost of services, whereas the IASB Framework has a section on ‘Factors to Consider When Selecting a Measurement Basis.’

5.4 The IASB Framework distinguishes historical cost measures and current value measures. Current value measures discussed are fair value, value in use for assets and fulfilment value for liabilities all of which are exit values and current cost for an asset, which is an entry value. This approach will be compared with the IPSASB’s approach, which includes additional measurement bases – net selling price for assets and assumption price and cost of release for liabilities. The IASB approach is illustrated in diagram 1.

Diagram 1:



- 5.5 The IASB Framework also includes sections on the measurement of equity and cash-flow based measurement techniques, neither of which were considered in the IPSASB Framework. Fair value is considered at Key Issue # 3.
- 5.6 The project will consider whether the IPSASB should modify its Measurement Chapter in light of the IASB's approach.

Key Issue # 3—Absence of fair value from IPSASB Framework

- 5.7 IFRS 13, *Fair Value Measurement*, was issued in 2013. It introduced a revised definition of fair value that is explicitly exit-based. As indicated above fair value is one of the measurement bases included in the IASB Framework with the same definition as in IFRS 13.¹ In its Conceptual Framework Exposure Draft (ED) on Measurement issued in 2013 IPSASB did not propose a fair value measure. A number of respondents challenged the lack of an exit-based market derived current value and advocated adoption of fair value, as defined in IFRS 13.
- 5.8 Despite these reservations the IPSASB decided to define 'market value'² using the pre-IFRS 13 definition of fair value as used in IPSASB literature, and also to define replacement cost as a measure in its own right, rather than as an estimation technique for fair value. The rationale was that market value could be used for both entry and exit-based transactions and that replacement cost would be appropriate for specialized public sector assets. Recently, the Financial Instruments project and the Measurement project have demonstrated the flaw in the rationale and the need for an exist-based non-entity specific current value reflecting an open, orderly and active market.
- 5.9 The Basis for Conclusions of the Framework included a statement that "The IPSASB may carry out further work at standards level to explain how the measurement basis in this chapter aligns with fair value, as implemented in IFRS." Consistent with this statement, in 2019 the [Consultation Paper, Measurement](#) proposed importing fair value as defined in IFRS 13 into the IPSASB literature. CAG members have emphasized that, from a public interest perspective, it is very important that any fair value definition in the IPSASB's literature is the same as the IFRS 13 definition. A number of respondents to the Measurement Consultation Paper highlighted the numerous references to fair

¹ Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date.

² Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

value in IPSAS and sought clarification. Furthermore, it is essential that the Measurement project and the Conceptual Framework move in step on this issue. For these reasons the inclusion of fair value in the Framework is an urgent issue.

- 5.10 One of the most difficult and emotive issues in the public sector is the notion of 'highest and best use'. IFRS 13 defines highest and best use as the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g. a business) within which the asset would be used.' The response to the Measurement CP has highlighted uncertainty and potential reservations about the interpretation and application of 'highest and best use'. In at least one jurisdiction there has been ongoing debate about whether 'highest and best use' is a measure related to any possible use of an asset or should be derived by reference to the asset's existing use. It seems likely that the IPSASB needs to provide guidance in this area, but questionable whether this should be in the Framework or at standards level.

Key Issue # 4—Relationship between fair value and market value

- 5.11 The relationship between fair value and market value must be clarified. As implied above, the rationale for the inclusion of market value in the Framework is that, as an entry and exit value, it is an appropriate measurement basis for non-specialized operational assets. This could have been stated more clearly. There are questions whether both market value and fair value are needed in IPSASB's literature and the practical consequences of having two similar measurement bases.

Key Issue # 5—Tension between replacement cost as a measurement basis and replacement cost as an estimation technique for fair value

- 5.12 A number of respondents to the Measurement Consultation paper highlighted tension between the proposal that replacement cost as an estimation technique in the determination of fair value in accordance with IFRS 13 and the Conceptual Framework's depiction of replacement cost as a measurement basis in its own right. This issue needs to be investigated in order to ascertain whether replacement cost should be retained or modified or whether there should be changes of terminology.

Key Issue # 6—Capital maintenance

- 5.13 As noted above, unlike the IASB Conceptual Framework, the chapter on Measurement includes an objective of measurement:

"To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes."

- 5.14 It was considered that in light of this objective a section on capital maintenance was unnecessary and that the section in the IASB Framework, which dates back to the IASC's 1989 Framework, was not easily oriented to the public sector. Recent discussion of financial performance in the public sector has suggested that this view should be reassessed, because capital maintenance is fundamental to assessments of financial performance in the public sector.

Key Issue # 7—Elements: Definitions of an assets and a liability

- 5.15 The IPSASB Framework defines an asset, a liability, revenue, expense, contributions from owners and contributions to owners. The IASB Framework defines an asset, a liability, equity, income, and expenses. Staff does not propose that there are additions or deletions to the current elements in the IPSASB Framework.

- 5.16 The IASB finalized these definitions after the approval of the IPSASB Framework. Staff’s preliminary view is that the differences between the definitions of an asset and a liability in the two Frameworks are not substantive. However, it is important that this view is tested for consequences that are not immediately apparent, e.g., does a present obligation of the entity for an outflow of resources (IPSASB) differ from a present obligation of the entity to transfer an economic resource (IASB) (staff underlining for emphasis). The difference in the definitions of income (IASB) and revenue (IPSASB) and expenses (IASB) and expense (IPSASB) are attributable to IPSASB’s acknowledgement of other economic phenomena –other resources and other obligations. It is not proposed that the issue of the continued retention of other resources and other obligations is in scope of this project (see below section 9 for the rationale).

Key Issue # 8–Unit of account and executory contracts

- 5.17 Although not new developments as they reaffirmed previous approaches the finalized IASB Framework included subsections on unit of account and executory contracts.
- 5.18 The IPSASB Conceptual Framework does not include equivalent sections. Unit of account is ‘the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and management concepts apply’. Unit of account was considered a standards-level issue during the development of the IPSASB Framework and there were reservations about including a section on it. However, the importance of decisions on the unit of account has been highlighted in both the Financial Instruments and Revenue projects and there is certainly a case for some high-level guidance. The development of such guidance will consider whether there are any public sector perspectives that need to be reflected.
- 5.19 Similarly, the IPSASB Framework does not include any guidance on executory contracts. This was because of a view that inclusion might have had unforeseen consequences for the Social Benefits project. With the publication of IPSAS 42, *Social Benefits*, earlier this year and the approval of the *Application Guidance on Collective and Individual Services* at the September 2020 meeting this risk no longer exists.

Key Issue # 9–Acknowledgement of prudence in context of neutrality

- 5.20 The core text of the IPSASB Framework does not refer to prudence. Paragraph BC3.15 of the Basis for Conclusions notes that some respondents to the ED on *Role and Authority, Objectives, Qualitative Characteristics and the Reporting Entity*, had expressed concern that prudence was not identified as a qualitative characteristic (QC) and felt that its importance was insufficiently recognized or explained. The IPSASB concluded that ‘prudence is reflected in the explanation of neutrality as a component of faithful representation(and) therefore....prudence is not identified as a separate QC because its intent and influence in identifying information that is included in GPFRs³ is already embedded in the notion of faithful representation.’
- 5.21 Following representations from constituents, in particular from Europe, and considerable discussion, the IASB Framework acknowledges that ‘neutrality is supported by the exercise of prudence’ and that ‘prudence is the exercise of caution when making judgments under conditions of uncertainty.’ The IASB Framework goes on to state that ‘the exercise of prudence does not lead to overstatements or understatements of assets, liabilities, income or expense. Furthermore, the exercise of prudence

³ General Purpose Financial Reports

does not imply the need for asymmetry, although particular standards may contain asymmetric requirements.

- 5.22 The staff view is that the consequences of these changes are not particularly far-reaching. Nevertheless, there are strongly held views on prudence. For example, prudence has been emphasized by a number of members of the European Public Sector Accounting Standards (EPSAS) Working Group. A failure to address prudence may therefore be a deterrent to IPSAS adoption in some regions.

Key Issue # 10—Materiality

- 5.23 The IASB's 2018 Improvements Project made amendments to IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes Accounting Estimates and Errors*, to clarify the definition of material to resolve difficulties that entities experience in making materiality judgements when preparing financial statements and to align the definitions in both standards. Because of these changes the IASB also amended Chapter 2 of its Framework. One aspect of these changes is guidance that immaterial disclosures have the potential to impair the understandability of the financial statements, rather than just being neutral. Staff considers this an extremely important insight.
- 5.24 At the June meeting the IPSASB considered including these amendments in its 2019 Improvements project but decided that they should be initially considered in this project. In Staff's view there is some urgency to this issue from both an alignment perspective and because materiality is a pervasive issue in the public sector.

Key Issue #11—Communication

- 5.25 As with other IPSASB projects there is currently an active external stakeholder community with expectations for this project. As a result, it will be important to manage expectations with formal and regular communications which reinforce the objective of this project, particularly its limited scope.

6 Describe the Implications for any Specific Persons or Groups

Relationship to IASB

- 6.1 In March 2018, the IASB published its *Conceptual Framework for Financial Reporting*. This built on the April 2010 version which took the IASC's 1989 Framework as its starting point.
- 6.2 Subsequent to the publication of the Framework the IASB made some limited scope amendments to Chapter 2, *Qualitative Characteristics of Useful Financial Information*, relating to materiality (see above Key Issue #10).

Relationship to Other Standards, Projects in Process or Planned Projects

- 6.3 Because of its central role in standard setting and the development of guidance on financial reporting issues outside the financial statements the Framework has a major impact on all current and prospective projects. There is a particularly strong relationship with the Measurement, Heritage and Infrastructure projects and the proposed project on Accounting for Non-Current Assets Held for Sale and Disclosures on Discontinued Operations in the Public Sector, the project brief for which is on the agenda for this meeting (Agenda Item 13).

Government Finance Statistics

6.4 The concepts in the Framework affect the IPSASB’s analysis of approaches in the Government Finance Statistics Manual and how the IPSASB applies its [Process for Considering GFS Reporting Guidelines during Development of IPSAS](#).

7 Development Process, Project Timetable and Project Output

Development Process

7.1 The development of any output will be subject to the IPSASB’s formal due process, with input from CAG. The approval of an ED will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the project timetable remains the most appropriate.

Project Timetable

7.2 The expected timeline for the project is as follows:

Major Project Milestones–	Expected Completion
Approve Project Brief	March 2020
Approve Exposure Draft (ED) Phase 1	September 2020
Approve ED Phase 2	December 2020
ED Comment Period (four months): Phase 1	February 2021
ED Comment Period (four months) Phase 2	May 2021
Review of Responses to EDs	June & September 2021
Approve Final Revisions to Framework	December 2021

Project Output

7.3 The output will be revised parts of the Conceptual Framework, in particular Chapter 7, Measurement. There will also be amendments to Chapter 3, *Qualitative Characteristics* and Chapter 5, *Elements*. There will need to be a decision on whether capital maintenance will be incorporated into Chapter 7 or a separate chapter, as in the IASB Framework.

8 Resources Required

Staff

8.1 It is envisaged that 0.5 Full Time Equivalent (FTE) staff member will be required to resource the project.

Factors that Might Add to Complexity and Length

8.2 Factors that may add to the add to the complexity and length of this project include:

- (a) Broadening the scope beyond that indicated in the project brief;
- (b) External expectations for this project, which leads to the need for more robust communication with constituents; and

- (c) Coordination and consultation required with Measurement Task Force and the Task Forces on Heritage and Infrastructure.

9 Useful Sources of Information

- 9.1 The principal source will be the IASB's Framework.

10 Other Matters

- 10.1 The following issues were identified to, and discussed by, the CAG in December 2019.

Hierarchy of QCs: fundamental and enhancing – Suggesting that information that is not faithfully representative or relevant is useful and supports the objectives of financial reporting if it is timely, verifiable, comparable or understandable might be used to support questionable accounting treatments not in the public interest. However, no obvious examples of adverse effects on IPSASB standard setting have been identified by staff. This issue is *excluded* from the scope of this project.

Other resources and other obligations – The Framework acknowledges that in some circumstances, to ensure that the financial statements provide useful information, items that do not meet the definitions of the elements might be necessary – such items were termed 'other resources' and 'other obligations'. Other resources and other obligations have been discussed but not used in standards development, notably the Revenue and Transfer Expenses EDs. It might be questionable whether their continued retention in the Framework is necessary.

While other resources and other obligations have not been used at standards-level their presence in the Framework gives the IPSASB some flexibility in future. It does not seem that their continued inclusion in the Framework is causing problems. Proposing change on the basis of one Board decision, albeit a very important one, is arguably an over-reaction.

It is also notable that the EPSAS Conceptual Framework includes similar items.

It is acknowledged that the reflection of other resources and other obligations in the Framework does mean that definitions of revenue and expense are not aligned with their IASB counterparts.

This is a major topic, which during the development of the Elements chapter of the IPSASB Framework required very significant staff and member resources and considerable Board meeting time. Staff consider it inappropriate for a limited scope review and it is therefore *excluded* from the scope.

Use of term non-legally binding obligation – The Framework adopted the term 'non-legally binding obligation' rather than 'constructive obligation' as used in the IPSASB's and IASB's literature. The rationale, which was not well explained was that constructive obligation is over anglo-centric. The term has not yet been used at standards level and it is questionable whether the term has been helpful. However, it is probably best to monitor this issue rather than proposing changes at present. Therefore, the issue is excluded from the scope.