INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE:	12 JUNE 2006
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	MIKE HATHORN
SUBJECT:	IPSASB CONCEPTUAL FRAMEWORK SUBCOMMITTEE NATIONAL STANDARDS SETTERS MEETING

ACTION REQUIRED

The IPSASB is asked to:

- **note** report on the National Standards Setters group set up to monitor the IASB-FASB work on the IASB conceptual framework; and
- **consider** Project Brief prepared for discussion with national standards setters and other authoritative bodies on actioning a collaborative project
- **discuss** collaborative project with participants at meeting in Paris

AGENDA MATERIAL:

		Pages
13.2	Agenda for Discussion with NSS	13.10 – 13.12
13.3	Draft Project Brief	13.13 – 13.48

BACKGROUND

The IPSASB Subcommittee

Following its July 2005 meeting, the IPSASB established a subcommittee to monitor the work of a group of 4 national standards setters (NSS-4) reviewing the IASB-FASB joint Conceptual Framework project for possible public sector and not-for-profit entity implications. The NSS-4 group monitoring the IASB-FASB conceptual framework project comprises Australia, Canada, New Zealand and UK.

The IPSASB subcommittee comprises the following member countries - UK (Chair), Australia, France, Norway, South Africa and USA.

Mr Kevin Simpkins, who is a former IPSASB member, has been engaged by the national standards-setters to prepare reports on IASB deliberations on this project. Mr Simpkins has provided seven reports, which have been circulated to the IPSASB subcommittee members and are available to other members on request from staff.

At the end of each stage of the IASB – FASB development process the NSS group produces papers drawing out the implications for public sector/not-for profit entities. The NSS-4 group also intends to provide papers to the IASB as input to their deliberations, papers setting out matters that should be considered from a public sector/not-for profit entity perspective.

My previous reports to IPSASB meetings have noted the major points of reports prepared by Mr Simpkins – these are summarized in the attachment to this memorandum. Subsequent to my last report, Mr Simpkins has issued three additional reports. Major issues identified in those reports are also included in the attachment.

The work of the NSS will provide potentially valuable input for the IPSASB as it considers the development of its own Framework. The subcommittee will continue to monitor the development of the IASB project through the work of the NSS-4 group, and will identify relevant issues as input for the IPSASB's own conceptual framework project.

MEETING WITH NATIONAL STANDARDS SETTERS

At the Tokyo meeting in March 2006, members agreed to explore the potential for actioning a collaborative project on the development of a Public Sector Conceptual Framework (Framework) with National Standards Setters and other authorities bodies from many jurisdictions (the term NSS is used here to encompass this broader grouping of standards setters and other authoritative bodies). That discussion was to include consideration of the potential to co-ordinate development work with, and if possible, draw on the resources of national standards setters and others with the interest and capacity to participate in the project.

Following the meeting, the IPSASB Chair wrote to standards setters in member jurisdictions, and to the Chair of the NSS-4 group monitoring the IASB-FASB Framework project. The Chair invited these bodies to meet with the IPSASB in Paris on July 4 or 5, to discuss actioning this project. Input was also sought from IPSASB members on other organizations that should be invited. Standards setters and other authoritative bodies from the following countries have been invited and are expected to participate in the discussion: Canada, China, Australia, France, Italy, Netherlands, New Zealand, South Africa, Spain, Switzerland, UK, USA and the FEE Public Sector Committee. The IASB and the International Task Force on Harmonization of Public Sector Accounting (TFHPSA) will also be represented.

The attached draft Project Brief was prepared by staff and reviewed by the Conceptual Framework sub-committee and IPSASB members during May/June.

Attachments 1 and 2 to the Project Brief provide an overview of materials addressed in the IASB Framework and the definitions and explanations included in the IPSASs. Attachment 3 summarizes the result of a brief survey of IPSASB members regarding the existence, nature and contents of Frameworks in their jurisdictions. (It reflects responses to the survey document issued on February 6, 2006.). This material has been provided previously to IPSASB members, but may be useful for other participants.

In broad terms the draft project brief proposes that:

1. The project should be developed with the involvement of, or on a collaborative basis with, national standards setters. This will ensure that sufficient staff resources are available to develop the project on a timely basis, and enable the IPSASB to progress other projects on its agenda. It will also enable the IPSASB to draw on the significant knowledge base of national standards setters and similar bodies, and promises to be the most efficient and effective mechanism to enable a common Framework to be developed at the national and international levels.

2. IPSASB staff should act to co-ordinate the development and drafting work, support the subcommittee and liaise with the IPSASB and the national standards setters.

However, staff resources from national standards setters or similar should be sought to prepare drafts of key documents.

3. A subcommittee of 4 or 5 IPSASB members and two representatives of the NSS should be established to review and co-ordinate materials being developed for consideration by the full IPSASB at each meeting, and to assist in the presentation of that material. That subcommittee could work primarily on an electronic basis. However, it would meet for half a day before each IPSASB meeting to finalize views on papers developed between each meeting. The subcommittee may also meet on other occasions to review materials if considered necessary.

4. The Framework should deal with both the cash and accrual bases. While the primary focus of most of the national standards setters interested in a conceptual framework project will be on the accrual basis, the IPSASB suite of standards includes the Cash Basis IPSAS.

5. The Framework should not have the same authoritative status as an IPSAS, but should guide the IPSASB in the development of IPSASs. It will also provide useful guidance to constituents in the absence of an IPSAS on a particular topic.

6. The Framework should deal with the reporting entity; objectives of financial reporting by public sector entities; qualitative characteristics of financial information; the reporting entity; definitions of assets, liabilities, revenue, expenses, net assets/equity (or similar); recognition criteria and measurement bases. In the process of developing exposure drafts on these topics user information needs and the scope of financial reporting will also be considered, including whether budget reporting, disclosure of prospective information and reporting on service accomplishments is included within the scope of financial reporting.

7. Rather than developing a formal discussion paper or consultation paper as the initial document in the due process for this project, (or at each stage of the process), the IPSASB should develop and publish for comment its project plan and, subject to comments received, move directly to the preparation of exposure drafts of key aspects of the Framework. This approach provides the opportunity for constituents to provide input on the nature and contents of the project, but does not duplicate efforts by developing a consultation paper in addition to an exposure draft.

The project brief is a preliminary draft and does not necessarily represent the views of all IPSASB members. Through the review process IPSASB members have noted that there are some aspects that will need to be explored further in discussion at Paris. Those matters include:

- whether a Framework for the cash basis should be included in the project;
- whether discussion papers should be prepared before developing exposure drafts;
- whether a survey of user needs should precede actioning the development of any documents dealing with the objectives of financial reporting by public sector entities;
- whether the exposure drafts should be developed and issued in three tranches as proposed, or all together in one group;
- whether the grouping of exposure drafts is appropriate;
- how the subcommittee is to be established – it needs to be broadly representative and balanced. Members noted that because of the significance of this project, it is desirable that the IPSASB chair be the chair of the subcommittee, or at least a member of it;

- what resources will the national standards setters provide. Members noted that it would be ideal if funds were provided for the IPSASB to engage staff directly and/or if NSS staff involved in monitoring the IASB-FASB project could be allocated to the collaborative project; and
- whether the timing for completion of the project is too tight/optimistic.

Members and other participants may also identify additional matters that need to be drawn out during discussions in Paris.

An Agenda for the meeting is included at item 13.2. This Agenda is indicative only, and it is anticipated that there will be an open discussion of the draft Project Brief, recurring issues and next steps in this project.

Attachment

ISSUES FROM NSS MONITORING REPORTS HIGHLIGHTED IN FIRST THREE REPORTS OF THE IPSASB SUBCOMMITTEE

Process - the IASB-FASB intend to initially focus on a framework for private-sector business entities, and at the end of that process consider not-for-profit (NFP) entity (including perhaps public sector) issues. This is an inefficient process as all the concepts will need to be re-debated from the NFP perspective and raises doubts about whether decisions once made from a "for profit" perspective will be revisited for NFP implications;

Objectives of financial reporting:

- o the proposed revised objectives which focus on decision usefulness do not give sufficient acknowledgement to accountability/stewardship which is a fundamental public sector principal; and
- o The identification of users as present and potential investors is too narrow for the NFP and public sector. Similarly, the focus on reporting information that assists users to evaluate the effects of past or future events on future net cash inflows (or confirm or corrects previous evaluations of such) is also too narrow for the NFP and public sector, and has implications for the boundaries of financial statements.

The focus of the objectives (assessing/confirming cash flows) and users (investors, potential investors, creditors and others to make investment and credit decisions) remains very much on private sector business entities. The focus on information to assess cash flow prospects is elevated above information about financial performance, financial position, service performance and compliance with statutory authorities. As noted above, stewardship and accountability are not identified as "first order" objectives.

The focus on financial reporting, rather than financial statements means the framework encompasses financial statements, other financial information and non financial information, and this is a positive from the public sector/not-for-profit-perspective perspective.

The IASB is likely to move directly to an exposure draft (ED) (tentatively scheduled for issue March 2006) dealing with "Objectives" and "Qualitative Characteristics", rather than first issuing a discussion paper as was initially contemplated. There is a concern that this will provide less opportunity for the national standards setters and others to influence the material from a public sector/not for profit entity perspective.

The Preface to the IPSASs notes that Government Business Enterprises (GBEs) apply IFRSs. The current IASB-FASB work does not highlight any matters that might be of particular importance for GBEs and it is not clear whether the IASB-FASB will explicitly consider whether social policy obligations, the legislative framework, and/or compliance or other matters might impact on the operations of GBEs raise issues that need to be considered/identified in the development of the IASB Conceptual Framework; The IPSASB has written to the IASB to raise this matter.

Whether there should be differences in objectives, user information needs and qualitative characteristics for smaller or non-publicly accountable entities (NPAEs). No differences are identified at this stage. The Consultant expresses concern that the consideration of this area has not been as thorough as it might have been. (All discussion, of course, is in the context of private sector business entities).

The explanation of the qualitative characteristics components and process has improved with further development, and the approach itself is supported. However, it needs further development from both standards setters and preparer perspectives before it is ready for exposure.

Papers considered by the Boards do not identify the role/authority of the framework in GAAP hierarchy.

Communications between NSS and the IASB-FASB
In October 2005, the Chairs and senior staff of the NSS wrote to the IASB proposing that the IASB consider the applicability of the framework material to not-for-profit entities as part of its ongoing review, rather than at the end of the project. This proposal was discussed by the IASB but ultimately rejected.

ISSUES FROM NSS MONITORING REPORTS HIGHLIGHTED IN FOURTH REPORT OF THE IPSASB SUBCOMMITTEE

The role/nature of costs and benefits in the qualitative characteristics:
Papers being considered by the IASB do not deal with the costs (or benefits) that should be included in any analysis. Similarly, whether the costs and benefits might differ for different types of organizations is not addressed. This may follow given that previous IASB-FASB papers on qualitative characteristics of financial reports have considered whether those characteristics would differ for different types of organizations, for example small or medium enterprises.

The IASB paper proposes that the Boards should commit to requesting more information from preparers, users and other constituents about their expectations about costs and benefits of the proposed standards. This makes sense, albeit that it may prolong the due process.

B The definition of an asset
The definition of an asset proposed by the IASB-FASB staff is “An asset of an entity is a present right, or any other access, to an existing economic resource with the ability to generate economic benefit to the entity”.

This is different from the current IASB definition and the current IPSASB definition and may have significant implications for public sector entities. The meaning of such terms as “an existing economic resource”, “present right or any other access” and “economic benefits” will be significant when considering application to public sector entities. They will influence whether a number of rights which public sector entities have access to qualify as an asset. These may include, for example, fishing quotas, radio frequencies and the right to tax. They may also have implications for dealing with service concession arrangements and heritage assets.

C Preliminary views in the notion of a reporting entity
The current IASB Framework does not include a robust explanation of the reporting entity concept. It is intended that as part of this project the Framework will clearly articulate the reporting entity concept adopted by the IASB. The IASB and FASB staff have commenced the process of identifying key aspects of the reporting entity for consideration by the Boards.

Aspects identifies so far include that:
- A distinction should be made between an “entity” and a “reporting entity” – that is, not all entities may qualify as reporting entities.
- The capacity to undertake activities, including undertake transactions with other parties, is the defining characteristic of an “entity”, irrespective of its legal form.
- The identification of an “entity” as a “reporting entity” should be linked to user information needs which in turn are linked to the objectives of financial reporting.

- At the general level the purpose of consolidated accounts should be to provide information about the group that is useful to present and potential investors and creditors and other users in making rationale investment, credit and similar economic decisions.

Linking the identity of the reporting entity to the objectives of financial reporting and user needs seems sensible, at least as a starting point in any deliberations. However, as identified in my previous reports, of particular concern to the public sector is that the objectives being proposed by the IASB-FASB at this stage do not give sufficient acknowledgement to public sector factors, such as accountability, and identify users as present and potential investors and creditors. The identification of objectives and users in these terms is too narrow for applicability to public sector non business enterprises.

Government Business Enterprises
The IPSASB Chair wrote to the IASB:

- noting that Government Business Enterprises (GBEs) were subject to IFRSs and therefore the IASB Framework; and
- encouraging the IASB to explicitly consider whether social policy obligations or other obligations that may be imposed on GBE's by their controlling government raised any specific issues that needed to be dealt with in the conceptual framework.

MAJOR ISSUES IDENTIFIED IN NSS MONITORING REPORTS ISSUED SUBSEQUENT TO LAST REPORT OF IPSASB SUBCOMMITTEE (Reports 5, 6 & 7)

The definition of a liability (from 5th and 7th reports)
A preliminary definition has been proposed by IASB-FASB staff as:
"Liabilities of an entity are its present obligations to other entities that compel potential outflows or other sacrifices of economic benefits."

This incorporates some significant changes (both wording and substance) from existing liability definitions. Significant issues for public benefit entities include:

- potential outflows or other sacrifices include not only outflows of cash or other assets, but also forgone inflows of cash or other assets;
- the notion of *little alternative to avoid* is replaced with notions of *compel potential outflows*
- the notion of a "stand ready" obligation comes into play

The IASB and FASB have confirmed their support for the general approach of the definition.

The IASB and FASB continue to explore alternative approaches to the definition, commencing with the most basic form and progressively building in detail. In the most basic definitions, which are those recommended by staff, the bulk of the explanation is left to amplifying text.

The recommended definition is: "A liability is a present economic obligation of an entity".

The NSS monitoring report noted that with appropriate commentary it is likely that the definition could apply to the public benefit entities.

The definition of an asset (from 5th and 7th reports)
The definition of an asset continues to evolve. The following revised working definition was put forward for consideration by the IASB-FASB:

"An asset of an entity is: (a) cash held by the entity; (b) a present right of the entity to cash; or (c) a present right or other present privilege of the entity to a resource that is capable of generating economic benefits to the entity, either directly or indirectly."

This definition incorporates further changes from existing definitions which will need interpretation in the public benefit entity context including the notion of a "stand ready" asset which may arise under this definition. The NSS monitoring report noted the need to include cash or a present right to cash in the definition itself raises a concern – would these not satisfy the definition of an asset unless specifically included in the definition? (Subsequently the IASB-FASB confirmed that these not be included. The IASB-FASB also agreed that references to directly or indirectly should be included in the commentary rather than the definition.)

As for liabilities, the IASB and FASB continue to explore alternative approaches to the definition, the most basic form which is recommended by staff is "An asset is a present economic resource of an entity." Explanations then appear in commentary.

The reporting entity (from 6th and 7th report)
The concept of the reporting entity is also taking shape with the IASB and FASB identifying the following key characteristics so far (consideration of other characteristics continues) - the reporting entity concept should:

- focus on determining the boundaries of the reporting entity, for both an individual reporting entity and a group reporting entity; and
- not be limited to those entities that have external users who are unable to demand the information they require and therefore must rely on information provided by the entity.

The NSS monitoring report expressed concern that it appears that the concept of a reporting entity will not be linked to the objectives of financial reporting, and therefore user needs, and that at the concepts level the Boards will not express a view on who is required to report – rather this will be a matter for authorities in each jurisdiction.

A preliminary definition of an entity is proposed as: "An entity is an economic unit that has the capacity to deploy resources."

The NSS monitoring report noted that this implies that for financial reporting purposes an entity is broader than a legal entity (economic unit), has observable boundaries and can be distinguished from other parties that have an interest in it (such as investors and creditors) and has a management function to enable it to engage in business activities, such as acquiring and disposing of assets, incurring and settling liabilities, purchasing or selling goods and services and, more generally, engaging in transactions with other parties.

Further research is to occur on whether a parent only entity is a reporting entity; and whether the boundaries of a group reporting entity should be based on a concept of control, for example, a concept that might encompass entities under common control.

The IASB-FASB staff view is that the parent entity and the group entity are two separate entities and that separate financial statements of the parent entity are insufficient to satisfy user needs.

The NSS monitoring report agreed with this view but noted it is not clear that this flows naturally from the definition of an entity.

The IASB-FASB staff view is that the conceptual framework should define, or at least contain some discussion of, the meaning of control and that such a definition needs to include both a power and benefit component: The following working definition from the IASB consolidation project is being used as a basis for further consideration:

"Control of an entity is the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits."

The NSS report notes that some complex issues arise in the PBE sector in relation to the ability to direct the other entity's financing and operating policies. It also notes that caution must be exercised in the development of any definition to ensure that the regulatory power of a government entity does not give rise to control and consolidation where such is not appropriate.

The IASB-FASB agree with the broad approach proposed by their staff, but noted that consideration of latent control may well raise other issues. Board members also noted that whether to use control or a broader or different concept to determine the boundaries of a group reporting entity is still to be addressed - some board members expressed a preference for a risks and rewards model, while others prefer a control model.

Distinguishing Liability from Equity
The IASB-FASB staff take the view that a distinction should be drawn between liabilities and equity based on whether they do or do not obligate the entity to transfer its economic resources to others or stand ready to do so. Staff also take the view that equity should not be defined explicitly but should be a residual.

The definition put forward by staff after reviewing work in many jurisdictions and considering positions reached on the other elements is: "Equity is the residual interest in the assets of an entity after deducting its liabilities."

These views are supported in the NSS monitoring report, which notes that the IPSASB uses the term "net assets/equity" and defines it similarly as "the residual interest in the assets of the entity after deducting all its liabilities".

Measurement 1: Planning
The IASB-FASB commenced consideration of a plan for the measurement portion of the conceptual framework project. IASB-FASB staff noted there is a gap in the frameworks in relation to measurement and this is an area where more than convergence/improvement of the existing frameworks is called for. Staff propose that the key milestones in the project are as follows:

I: Defining and Describing the Properties of Measurement Bases;
II: Evaluating Measurement Bases Using the Qualitative Characteristics;
III: Conceptual Conclusions and Practical Applications.

Measurement is likely to be a particularly contentious. Therefore, it is proposed that each phase be accompanied by the issue of due a process documents and extensive consultation if appropriate. This phase is proposed to be completed by December 2010.

The NSS monitoring report supports the process, but proposes that the timelines be shortened.

Proposed Program for Discussion

IPSASB and National Standards Setters and Other Bodies (NSS)

CONCEPTUAL FRAMEWORK PROJECT

1.30 pm – 3.30pm, Wednesday July 5

at
Ministère de l'Economie, des Finances et de l'Industrie,
139 rue de Bercy, Paris, France

It is intended to be a general discussion of the objectives and operation of a collaborative project. As a basis for discussion a draft Project Brief is attached. Participants may raise additional matters during the discussion.

A list of IPSASB members and other participants is attached.

At the end of the day it is intended that the meeting reach initial positions on:

- ***The objectives of a collaborative project;***
- ***The process to be adopted for project development and resourcing;***
- ***The parties that will actively participate in the project development;***
- ***Identification of additional issues/matters to be clarified/agreed prior to project activation; and***
- ***The next steps in project activation, and responsibilities and timelines.***

Proposed Agenda

Time	**Activity**
1.30 – 1.40	1. Welcome, Introductions and Session Objectives *Mr. Philippe Adhémar, IPSASB Chair*
1.40 – 2.30	2. Discussion of whether to action and resource a collaborative project. *All Participants*
2.30 – 3.30	3. Comments on Project Brief and proposals for revisions. *All participants*
3.15 – 3.25	4. Agreement on follow up actions and responsibilities. *All participants*
3.25 – 3.30	5. Closing remarks Mr *Philippe Adhémar*
3.30 – 3.45	Afternoon Tea

REPRESENTATIVES OF NATIONAL STANDARDS SETTERS AND OTHER ORGANIZATIONS
(Subject to final confirmation of all attendees)

NAME	REPRESENTING
Mr Wayne Upton	International Accounting Standards Board
Ms Caroline Mawhood	FEE-Public Sector Committee
Ms Lucie Laliberté	International Task Force on Harmonization of Public Sector Accounting TFHPSA
Professor Giuseppe Farneti	Commissine Enti Pubblici CNDC & CNR, Italy
Marcello Bessone	Ministerio delle Economia e delle Finanze, Italy
Mr W.G.J Wijntjes	Commissie Besluit Begroting en Verantwoording, The Netherlands
Ms Li Hongxia	Chinese Accounting Standards Committee
Mr Jim Paul	Australian Accounting Standards Board
Mr Ron Salole	Public Sector Accounting Board (PSAB), Canada
Mr Frank Mordacq	Ministére de l'Economie, des Finances et de l'Industrie, France
Mr David Bean	Governmental Accounting Standards Board
Ms Joanna Perry	Financial Reporting Standards Board, New Zealand
Ms Erna Swart	Accounting Standards Board, South Africa
Mr Ian Mackintosh	Accounting Standards Board, England
Ms Marianne Andreassen	Norwegian Government Agency for Financial Management
Mr Beat Blaser	Federal Department of Finance, Switzerland
Mr José Manuel Adan Carmona	Ministry of Economy and Finance, Spain

IPSASB MEMBERS AND OBSERVERS IN ATTENDANCE

NAME	REPRESENTING
Philippe Adhémar, Chair	France
Mike Hathorn, Deputy Chair	United Kingdom
Carmen Palladino	Argentina
Wayne Cameron,	Australia
Richard J. Neville,	Canada
Pankaj Jain	India
Ron Alroy	Israel
Tadashi Sekikawa	Japan
Mohd. Salleh Mahmud	Malaysia
Alejandro Luna Rodríguez	Mexico
Frans Van Schaik	Netherlands
Greg Schollum	New Zealand
Tom Olsen	Norway
Erna Swart*	South Africa
Ron Points	United States of America
Prof. Andreas Bergmann	Public Member, Switzerland
John Peace	Public Member, USA
Prof. Stefano Pozzoli	Public Member, Italy
Ping-Yung Chiu,	IPSASB Observer, ADB
Gilbert Gelard	IPSASB Observer, IASB
Robert Dacey	IPSASB Observer, INTOSAI
Jon Blondal	IPSASB Observer, OECD
Jayantilal M Karia	IPSASB Observer, UN
Gwenda Jensen	IPSASB Observer, UN and UNDP
Marius Koen	IPSASB Observer, World Bank

*Also representing the Accounting Standards Board, South Africa

INTERNATIONAL FEDERATION OF ACCOUNTANTS
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
DRAFT PROJECT BRIEF
Framework for the Preparation and Presentation of Public Sector Financial Statements

The Public Sector Conceptual Framework Project

BACKGROUND

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that as its first task it would focus on developing a credible core set of IPSASs that could be adopted by those entities seeking guidance on financial reporting issues. This approach was supported by the funders of the standards setting program. It also reflected the approach of many standards setters - that is, to develop their knowledge of concepts in conjunction with the development of standards before formally developing and publishing a Conceptual Framework.

Many concepts, definitions and principles are embedded in specific IPSASs. However, a document which draws together and makes explicit these concepts, definitions and principles, and identifies, explains and tests their interrelationships has not been articulated and issued.

As the IPSASs gain more prominence and influence, and as the IPSASB deals with more public sector specific issues, so the need for the IPSASB's own explicit Conceptual Framework has increased. In addition, the IPSASB has now had experience in working with the concepts in IPSASs. Therefore, work on the IPSASB Framework project will be informed by, and benefit from, work on public sector specific projects.

The need for an IPSASB Framework has been recognized by IPSASB members and observers, by the IPSASB Consultative Group and by others in the financial reporting community. It is an important component in the literature of standards setters around the world, will reinforce the ongoing credibility of the IPSASB and will support efficient and consistent decision making by the IPSASB.

PROJECT OBJECTIVE

The objective of this project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial statements of public sector entities. In developing this Framework the IPSASB will consider the definition and nature of general purpose financial statements and whether the Framework should focus only on financial statements or should encompass a broader notion of general purpose financial reports.

PROJECT SCOPE

It is intended that the Public Sector Conceptual Framework will be developed primarily for public sector entities other that Government Business Enterprises (GBEs). GBEs are profit seeking entities. As noted in the "Preface to International Public Sector Accounting Standards", GBEs apply IFRSs issued by the International Accounting Standards Board (IASB) and are therefore subject to the IASB's "Framework for Preparation and Presentation of Financial Statements" (the IASB Framework).

The operating/performance objectives of profit seeking entities in the private sector focus on sustainable long run profit maximization – in most cases, within operating parameters established by legislation and legal and social norms and objectives of being good corporate citizens. However, the performance objectives of GBE's often include the achievement of certain non-profit/social policy objectives imposed on them by governments, and their operations are subject to, and conditioned by, certain service delivery objectives. Arguably these factors may impact components of the financial reporting framework that applies to them. It will be important that the IPSASB and the IASB ensure that in the development of the Public Sector Conceptual Framework and the revised IASB Framework there is specific consideration of whether the social policy objectives that GBE's may be subject to will influence the objectives of financial reporting by GBE's and/or other components of the conceptual Framework that applies to them.

IPSASB DUE PROCESS

The IPSASB follows a formal due process for the development of IPSASs. That process involves the preparation and issuance for comment of an exposure draft (ED) that identifies the proposed requirements of an IPSAS and consideration of responses to the ED in the process of finalizing the IPSAS. The due process may also include the issuance of consultation papers prior to the development of an ED.

The development of the Conceptual Framework will also be subject to this due process, with consultative documents and EDs of proposed concepts being developed as considered appropriate by the IPSASB and issued for comment. Comments received will then be fully considered in the process of finalizing the Framework.

As noted below, it is proposed that the Public Sector Conceptual Framework be developed as a collaborative project with other national standards setters and similar bodies, which may also have their own due process. Documents developed as part of this project and issued domestically by those national bodies may also be subject to the national due process.

COLLABORATIVE PROJECT

It is proposed that the Conceptual Framework be developed as a collaborative project with national standards setters and similar authoritative bodies which have responsibility for financial reporting by public sector entities in their jurisdiction (the term NSS is used in this document to encompass all such national standards setters and similar bodies that are party to the collaborative project).

Attachment 3 summarizes the result of a brief survey of IPSASB members regarding the existence, nature and contents of Frameworks in place in their jurisdictions. (It reflects responses to the IPSASB survey document issued on February 6, 2006.) It indicates that Frameworks are in place or under development in a number of member jurisdictions. It also indicates that those Frameworks have a similar coverage in respect of scope, nature and content.

The IPSASB and the NSS have limited staff resources available to progress their already very heavy work programs. A number of important public sector specific projects will be competing for IPSASB meeting time in 2006 and beyond.

Actioning the development of the IPSASB Framework as a joint project with a number of NSS in IPSASB member (and other) jurisdictions provides the opportunity for the development of a substantially harmonized Framework across a number of jurisdictions, and has the potential to be a resource efficient mechanism for all that are party to it. It provides the opportunity for the IPSASB to be informed by the work already undertaken at the national level in many jurisdictions and to seek resources from those national bodies to support the IPSASB project. This has favorable resource implications for the IPSASB, and potentially for the national standards setters themselves who might otherwise be faced with the prospect of developing Conceptual Frameworks in each jurisdiction. This may involve duplication of effort and unnecessary and unintended differences in the national Frameworks.

A group of 4 national standards setters (NSS-4) with public sector responsibilities is currently monitoring the IASB-FASB joint project and preparing papers that draw out implications for the public sector of proposed amendments to the IASB Framework for not-for-profit entities in the public and private sectors. An IPSASB subcommittee is an observer on that NSS group. As noted in the reports of the IPSASB subcommittee, in many cases the monitoring process has identified that current draft changes being proposed to the IASB Framework do not appear to fit well with public sector needs. Actioning a collaborative project provides the opportunity for the IPSASB and NSS from other jurisdictions to draw on the work already done by this group of national standards setters as appropriate. This has favorable resource implications for the IPSASB project and all the NSS members who will be party to it.

Mechanisms for the development of draft documents, the role of the NSS and the operation of the collaborative process are explored further below.

RELATIONSHIP OF THE PUBLIC SECTOR FRAMEWORK DEVELOPED BY IPSASB TO THE IASB FRAMEWORK

The IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances.

Attachments 1 and 2 to this Project Brief provide an overview of materials addressed in the IASB Framework and in the IPSASs and the definitions and explanations included in the IPSASs.

The IPSASB decided in 2004 that it would not simply interpret the IASB Framework for the public sector, rather it would develop its own Framework using the work of the IASB and other standards setters as appropriate. The IFAC Board agreed that, as resources allow, the IPSASB should adopt this approach to the development of its own Framework.

Therefore it is appropriate to consider whether all matters dealt with in the IASB Framework are relevant to the public sector, whether the way in which those items are dealt with in the IASB Framework is appropriate for the public sector, and whether additional matters should be included in the IPSASB Framework. Most, if not all, of the components of the IASB Framework are likely to be relevant for the IPSASB’s Framework. However, it is arguable that as the IPSASB develops its objectives of financial reporting for public sector entities, so it will become necessary to consider whether the scope of financial reporting in the public sector should encompass concepts related to such matters as disclosure of budget information, reporting performance against budget and disclosure of non-financial performance indicators. These are concepts that, understandably, are not dealt with, or not dealt with in great detail, in the IASB Framework.

Having then determined the components of its own Framework, the IPSASB will consider how these components are currently dealt with in the IPSASs, the IASB Framework (including consideration of changes being proposed) and in the Frameworks of national standards setters.

As noted above, the IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the FASB. The 4 national standards setters monitoring the IASB-FASB joint project have noted that in many cases the changes being proposed at this stage do not fit well with public sector needs. It is then also appropriate to consider as part of this project whether concepts in the IASB Framework currently reflected in the IPSAS, and proposed changes therein remain relevant for a Public Sector Conceptual Framework.

RESOURCE REQUIREMENTS

The development of a Framework is likely to be a long term project. The original IASC Framework project was commenced in the early eighties with a series of separate projects on for example, objectives, assets and liabilities. It was then brought together as a Framework project in the mid 1980's and finalized and issued in 1989.

The current IASB-FASB project was actioned in late 2004 and is scheduled for completion in 2010. Significant IASB-FASB staff resources and Board meeting time are being allocated to the current project.

The IPSASB Framework project is also likely to be resource intensive, in terms of both IPSASB meeting time and member and staff resources. The IPSASB already has a heavy work program and additional projects are being considered for inclusion on the active work program from 2007. A schedule identifying projected timing of a collaborative Framework project and key milestones is included later in this project brief. It anticipates completion and publication of the Framework in 2010.

While it is anticipated that the IPSASB will have additional staff resources in 2007 and beyond, substantial of those resources are likely to be needed for other projects on the IPSASB work program. The IPSASB meets three times a year and has already recently increased its meeting time from 3 to 4 days. The IPSASB tends to use all of these 4 days for its technical and liaison projects and activities.

The staff allocation, project development process and IPSASB meeting time allocation proposed in this project brief is intended to deliver key outcomes of the project (initial consultation document, exposure drafts and final framework) in a timely and efficient manner and protect resources for other high priority projects on the IPSASB work program. It envisages that the equivalent of 1.333 full time staff be allocated to the project over 3- 4 years – the national standards setters providing the equivalent of one full time staff member (ideally by collectively providing funding for the IPSASB to secure such staff, or by directly allocating significant time of their own staff in the form of approximately .5 of the time of two staff) and IPSASB allocating .333 of one staff member. In addition, it is proposed that the IPSASB allocate one full half day of each meeting during 2007, 2008 and 2009 as necessary to progress the project and use a subcommittee (comprising IPSASB members and members of the NSS) to undertake initial review of papers.

PROJECT DEVELOPMENT

As noted above, the IPSASB Framework project is likely to be resource intensive, in terms of both IPSASB meeting time and member and staff time. While resources from national standards setters can alleviate the staff resource bottleneck, finding available IPSASB meeting time is likely to remain difficult.

It is proposed that an IPSASB subcommittee be established to work with staff in preparing and reviewing much of the preliminary materials, before discussion of those materials at the IPSASB meeting. The subcommittee would also operate to implement directions of the IPSASB and coordinate with NSS who were party to the collaborative project. The subcommittee can then ensure that, within the parameters established by the IPSASB, initial development of viable options and approaches to different concepts could be identified and developed without consuming Board meeting time.

There are, of course, risks and costs in using subcommittees. Those risks include that the subcommittee has a more limited breadth of knowledge than does the full Board, develops its knowledge base in advance of the full IPSASB itself, forms views and/or discounts some potential approaches in advance of hearing the debate at the full IPSASB meeting and that debates which occur in the subcommittee are duplicated at the full IPSASB meeting. There is also the potential for subcommittees to involve more use of staff resources, as staff prepare papers for subcommittee meetings and Board meetings.

However, the benefit of the use of a subcommittee to act as a first level filter for Board papers and as an efficient mechanism for coordinating activity with NSS is anticipated to outweigh the risks identified above. It does mean that mechanisms need to be put in place to ensure that the subcommittee is established with a broad knowledge and experience base, that the IPSASB discusses and provides guidance on key issues, that papers are developed within the context of directions provided by the IPSASB and that full and timely reporting back to the IPSASB occurs as components of the project develop.

Different subcommittee operating models may be implemented dependant on IPSASB staff available and the participation of staff of national standards setters in the project development.

The following is proposed as a working model for the establishment and operation of the subcommittee and its interaction with the IPSASB and NSS:

- Composition of the subcommittee – the subcommittee to comprise 4 to 5 IPSASB members and two representatives of national standards setters who provide resources in support of the project. (Technical advisors to IPSASB and NSS subcommittee member will also be welcome to participate.) The subcommittee will be chaired by the IPSASB Chair if feasible, or other IPSASB member if not;

- Working procedures – the IPSASB will establish broad parameters for each stage of the project based on a key decisions questionnaires or similar issues papers prepared by staff. Staff will be responsible for preparation of drafts of key documents which will be subject to initial review by the subcommittee. The subcommittee chair will assist in presentation of papers to each IPSASB meeting and will report on progress on other papers at each IPSASB meeting;

- Subcommittee materials – papers for subcommittee review will be developed by staff consistent with directions of the IPSASB as per above. All subcommittee papers will also be made available to all IPSASB members and a designated member of each of the participating NSS with an interest to monitor developments. These papers will be made available through the IPSASB web page;
- Subcommittee meeting arrangements - the subcommittee will conduct its business primarily by electronic means, but will meet for a half day before each IPSASB meeting to ensure some discussion occurs on a face to face basis, and if necessary following each IPSASB meeting to plan follow up actions based on directions of the IPSASB. This is intended to make most effective use of member's meeting and travel time. Additional meetings may be scheduled as needed subject to availability of members (travel, accommodation and other costs to be met by participants);
- Publication of exposure drafts and other materials - the issuance of documents for comment (exposure drafts and/or other consultative papers) will be subject to the usual voting rules of the IPSASB. Once approved by the IPSASB for release at the international level, documents may also be released by the NSS for domestic review together with any contextual commentary considered necessary by the NSS in each jurisdiction.

MATTERS TO BE DEALT WITH IN THE PROJECT

A Framework for the Cash Basis and a Framework For The Accrual Basis

The Framework of the IASB deals with only one basis of accounting – the accrual basis. This approach is reflected in the Frameworks of standards setters in IPSASB member jurisdictions – see attachment 3. It reflects that those standards setters issue standards for financial reporting under the accrual basis of accounting.

Discussions of the development of a Public Sector Framework by the IPSASB have focused, explicitly or implicitly, on a Framework for preparation and presentation of financial statements under the accrual basis of accounting. That the IPSASB Framework project will develop a Framework for application when the accrual basis is adopted is generally accepted.

However, the IPSASB has developed a comprehensive Cash Basis IPSAS as well as a series of accrual IPSASs. Therefore it is appropriate that the IPSASB also articulate the conceptual underpinnings of its approach to financial reporting under the cash basis of accounting.

While the concepts to be dealt with under a cash basis may not be as extensive as for accrual, there may be some common elements and some common ground – for example components of a conceptual framework for the cash basis will need to deal with such matters as the objectives of financial reporting, reporting entity, the definition of cash and presentation and disclosure (including disclosure of third party settlements). While some concepts will be similar for the cash and accrual Frameworks (for example, notions of reporting entities), others are likely to differ from the equivalent concepts for the accrual basis in some respects.

Therefore, the cash and accrual concepts should be seen as separate stand alone Frameworks and concepts for each framework identified and explained independently.

While the IPSASB may issue its Public Sector Conceptual Framework as one document including both the cash and accrual Frameworks and may provide some commentary on the movement from cash to accrual basis of financial reporting, the cash and accrual concepts will not be interdependent and the cash and accrual Frameworks will be stand alone components. This will also facilitate use of the Framework as developed by the IPSASB by those NSS which currently develop standards only under the accrual basis or only under the cash basis.

In anticipation that the greatest interest and priority of the IPSASB and NSS will be to develop the Framework that underpins the accrual basis of reporting, it is proposed that the conceptual underpinnings of the cash basis be developed as the last phase of the project.

Components of the Framework

As illustrated in attachment 3, Conceptual Frameworks have been developed and/or are being developed and improved in many jurisdictions currently represented on the IPSASB. In some cases those Frameworks have been developed to apply to public sector entities. Frameworks have also been developed in other jurisdictions not currently represented on the IPSASB.

Frameworks in member jurisdictions deal with objectives, qualitative characteristics, assets, liabilities, revenue (currently under development in Canada), expenses, equity/net assets, recognition criteria, measurement bases (descriptive only in Australia) and financial statements (Australia and Canada have requirements outside the Framework). A number, but not all, also deal with characteristics of the reporting entity and the scope of financial reporting. In some jurisdictions, Frameworks may also address concepts of capital and capital maintenance, non-financial performance reporting (service efforts and accomplishments), management analysis and discussion, communication, and accounting for interests in other entities.

The IASB Framework also deals with many of these components: for example it includes consideration of objectives, qualitative characteristics, the elements of financial statements for presentation of financial position and performance (assets, liabilities, expenses, income - which encompasses revenue and gains-, equity), recognition criteria, underlying assumptions of going concern and the accrual basis, measurement bases and capital and capital maintenance. The current review of the IASB framework includes consideration of the reporting entity, purpose and status/authority of the framework and presentation and disclosure.

Clearly there is a consensus about the core items that should be dealt with in Conceptual Frameworks: objectives, qualitative characteristics, elements of financial statements (assets, liabilities, revenue, expenses, equity/net assets), recognition criteria, measurement bases, and presentation and disclosure. However, given that users of public and private sector financial statements and certain of their information needs may differ, there may well be some differences in the definition and consequences of these concepts – for example, whether private sector objectives which focus on use of financial statements as predictors of future cash flows and whether notions of equity/net assets adopted in the private sector are applicable in the public sector will need to be explored and tested as part of the developmental process.

There is also a case for including concepts of the reporting entity and the scope of financial reporting in the public sector within the IPSASB Framework, and for clarifying the purpose and authority of the Framework itself.

Reporting Entity

Notions of reporting entity and what may be encompassed within a particular reporting entity, whether at the individual entity or consolidated economic entity level, may be well understood in the private sector and in statistical reporting bases in the public sector. However, they are not as well developed for financial reporting consistent with accounting principles in the public sector. In addition, the objectives of statistical reporting models and accounting reporting models differ. Consequently, it may well be that notions of the reporting entity that are appropriate for financial reporting consistent with statistical reporting models will differ from the notions that are appropriate for accounting reporting models. The IPSASB Framework should provide needed guidance in this area.

Scope of Financial Reporting

The following items may well impact on the scope of financial reporting in the public sector and may extend that scope beyond that conventionally considered as applicable to financial reporting by private sector for-profit entities in many jurisdictions.

(a) Performance Reporting

The focus of conceptual frameworks for financial reporting by private sector entities is primarily or exclusively on the disclosure of information about the current financial position and immediate past financial performance of the reporting entity, often as input to better enable users to form views about the likely future financial performance of the entity or economic entity. Statistical financial reporting models also focus on the disclosure of the financial characteristics of performance as input for economic analysis and decision making. However, public sector entities operate to achieve service delivery and social policy objectives as well as financial objectives. Assessments of the performance of public sector entities, including their financial performance, cannot be isolated from their achievement of service objectives - this is particularly, but not exclusively, so for non GBE's. There is then a strong case that general purpose financial reports intended to discharge the accountability of a public sector reporting entity will encompass not only the financial characteristics of their performance, but also the achievement of their service delivery objectives – that is, information about non-financial characteristics of their performance.

Whether disclosures of non-financial characteristics of performance are included within the Public Sector Conceptual Framework, whether accounting standards should be developed to deal with these matters, and how such information should be disclosed will need to be considered in the process of developing the Framework. This consideration is likely to encompass the disclosure of performance indicators and explanatory narrative which may be included as notes to the financial statements or in management discussions and analysis (MDA) or operations review which accompany those financial statements and may (or may not) be subject to audit.

(b) Budget Reporting

Most governments prepare and issue as public documents, or otherwise make publicly available, their annual financial budgets. The budget documents are widely distributed and promoted. They reflect the financial characteristics of the government's plans for the forthcoming period and form the basis of financial data used to compile the national accounts of most countries. Monitoring and reporting on budget execution necessary for ensuring compliance with Parliamentary (or similar) authorization and is the central component of the process that provides for government and parliamentary (or similar) oversight of the financial dimensions of operations. Making budget data publicly available is necessary to enable transparent reporting of the government's financial intentions and of its use of taxes. In many respects, and for many external users, the budget documents are the most important financial statements issued by governments.

Budget reporting models often embrace the notion of commitments. While there is not a generally accepted single definition of this term, it is generally acknowledged as the government's responsibility for a possible future liability based on a contractual agreement. In many jurisdictions, reporting commitments has had an important role in financial reporting in the public sector.

As part of the process of developing the Public Sector Conceptual Framework it will be necessary to explore and clarify whether presentation of budget data as general purpose financial statements (GPFS) and reporting on budget compliance within GPFSs is within the scope of financial reporting in the public sector. In this context, it will be necessary to clearly distinguish between budget formulation and presentation of budget data as GPFSs, and the role of commitment accounting in the Framework.

(c) Prospective Financial Information and Reporting on the Sustainability of Government Programs

Many governments initiate social benefit programs intended to provide benefits to constituents over the long term. These programs are to be funded by revenues raised from constituents in the future in the form of taxes and government charges, and/or by transfers from other levels of government. The financial consequences of these programs and the resources to be generated in the future to fund them, are unlikely to be captured by concepts of assets, liabilities, revenues and expenses which are constructed to ensure that the economic consequences of past transactions and events can be reported on a reliable and consistent basis in financial statements that are subject to audit.

Profit seeking entities which operate in a competitive environment may make disclosures of prospective financial information based on assumptions about events that may occur in the future and possible actions the entity may take. However, any such disclosures are likely to be broad and limited in detail. This is because they may include commercially sensitive information about future plans and strategies which may undermine the competitive advantage of an entity and its ability to achieve its profit objectives, to the detriment of stock holders and other stakeholders.

However, the potential loss of commercial advantage is not a significant factor in assessing whether such disclosures should be made by public sector entities. Disclosure of prospective financial information may be a necessary adjunct to information recognized in the financial statements consistent with the objective of financial reporting by such entities. Such disclosure may include financial information about the long term sustainability of programs at different levels of service delivery.

Governments are already responding to this potential information need of users of their financial statements. For example, in some jurisdictions government entities are required to disclose forecasts of long range cash inflows and outflows for major classes of social benefits, information about the present value of future benefits to be provided to current and anticipated beneficiaries and key assumptions underlying those forecasts and estimates. In addition, some governments provide “whole of government” information useful as input to assessments of the extent to which current social policies are sustainable, including the projected impact of those policies on taxation, debt and the government’s overall financial condition. Such information may be included in “generational reports” which are presented as part of the budget process; or as separate reports and papers on projected revenues, expenses and cash flows under existing policies.

Development of the public sector framework will include consideration of whether the disclosure of prospective financial information is a necessary component of general purpose financial reporting in the public sector and is included within the scope of general purpose financial reporting.

Relationship to Concepts in the System of National Accounts (SNA)
Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and in some cases have a similar type of report structure. There is then merit in considering the concepts, including for example notions of measurement and performance reporting, underlying the statistical reporting models, and the potential for convergence therewith, in the development of the IPSASB Framework

The overarching model for financial reporting of data for macroeconomic statistical analysis is the System of National Accounts, 1993 (1993 SNA). Statistical models of financial reporting in various jurisdictions around the world are broadly harmonized with the SNA. Currently, the 1993 SNA is being updated, with the objective of publishing a revision in 2008. The IPSASB has been contributing to the 2008 update of the SNA through its involvement in the international Task Force on Harmonization of Public Sector Accounting (TFHPSA). The mandate of the TFHPSA included encouraging convergence between accounting and statistical bases of financial reporting where feasible and desirable, and providing input to the 2008 update of the SNA. A number of proposed changes to the 2008 SNA will contribute to ongoing convergence of accounting and statistical bases of financial reporting.

Purpose and Authority of the Framework
The authority of the Frameworks in IPSASB member jurisdictions differs – see attachment 3.

The IASB Framework is of a lesser authority than an IAS or IFRS developed to deal with a specific transaction or event. However, the IASB Framework does guide the selection of accounting policies when an IAS/IFRS has not been established on a particular matter. It is then a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IFRS.

At the international level, it is likely that the principles reflected in a Framework will be too broad to apply authoritatively to all transactions not dealt with specifically in an IPSAS – this is particularly so given the potential for legal and institutional conventions to differ in different jurisdictions and for different practices and policies to apply in jurisdictions which may apply IPSASs.

Establishing authoritative requirements for recognition, measurement and disclosure of particular transactions in specific IPSASs will ensure that these requirements are subject to due process. It will also provide the IPSASB with the opportunity to include appropriate transitional provisions in each IPSAS to respond to practicalities of implementation, in different jurisdictions and thereby ensure that there is an orderly adoption of the IPSAS.

It is therefore intended that the IPSASB Framework have similar authority to that of the current IASB Framework. Such a Framework will be of use to the IPSASB and its subcommittees in guiding decisions and deliberations in the standards setting process, and to users of IPSASs who will be faced with establishing accounting policies for matters not specifically dealt with by IPSASs.

DUE PROCESS

Consultation Paper and Exposure Drafts

The IPSASB has initiated a number of its major projects with a consultative document, whether an Invitation to Comment (ITC), Research Report or Study. Similarly, in a number of jurisdictions a discussion paper or series of discussion papers has set the ground work for the development of the Conceptual Framework.

At the international level, the IASB commenced its original Framework project with the issuance of a series of EDs in the early 1980's and does not propose issuing a Discussion Paper as its first step in the revision of its Framework.

The publication of a Consultation Paper on the IPSASB Framework would draw valuable input from constituents, particularly on the structure and content of the Framework. However, the development of such a paper is likely to take considerable IPSASB and subcommittee meeting time and consume substantial staff resources. This would delay the issue of any exposure draft(s). In addition, issues raised in a Consultation Paper may also be dealt with in an exposure draft.

Therefore the IPSASB will move directly to prepare exposure drafts of the key components of the Framework. This will enable it to take advantage of the recent and current development work undertaken in member jurisdictions and by the NSS and IPSASB subcommittee monitoring the IASB developments. Such an approach will build and maintain momentum for the project, and avoid duplicating efforts of the IPSASB and its constituents in dealing with issues in both the Consultation Paper and the exposure draft(s). However, to ensure constituents are provided with the opportunity to provide input on such matters as the nature, scope and components to be addressed in the Framework, the Project Brief will be further developed after review by the IPSASB and NSS at the July 2006 IPSASB meeting, and the revised Project Brief together with a project plan including key milestones will be issued as a consultation document with request for comment on such matters as the components of the Framework, its authority and the process and timing for its development.

In addition, each ED will include a comprehensive Basis for Conclusions and Introduction to assist readers to fully understand each component and its relationship to other components of the Framework.

The IPSASB subcommittee will then review feedback and prepare for consideration by the IPSASB and NSS any recommendations for amendment. It is proposed that the project plan be revised following this meeting and approved at the November 2006 IPSASB meeting. Feedback and subcommittee recommendations thereon are to be considered by IPSASB at the March 2007 meeting. However, preliminary work on objectives and qualitative characteristics which are common to all Frameworks commences 2006.

Exposure Drafts

The components of the Framework are interconnected - decisions about the objectives and scope of financial reporting will influence the elements of financial statements and the extent to which other information is included in general purpose financial statements or general purpose financial reports. There is then a sound argument that the components should be developed together and the full framework issued as an exposure draft.

However, notwithstanding these arguments, is intended that exposure drafts be developed for each major component of the Framework and issued separately. This is proposed largely as a practical response to project management issues and as an acknowledgement that constituents and the IPSASB and NSS will wish to see, and be provided with the opportunity to comment on, the Framework as it develops. This will also enable later stages of development to be informed by responses to the first raft of exposure drafts.

In terms of sequences and groupings it is proposed that the components of the framework be grouped as follows – these groupings are based on the expectation that staff resources as proposed above will be allocated to the project by the IPSASB and NSS and that the initial focus of the Framework project will be on the concepts underpinning the accrual basis:

First group of exposure drafts

(a) Objectives of financial reporting. This will then influence what might be included as the “elements” of financial statements and what other information may be included within the scope of financial reporting, and therefore potentially be the subject of IPSASs developed by the IPSASB.

(b) Qualitative characteristics of financial information – these are characteristics that all information included within the general purpose financial statements or report will need to possess.

(c) Characteristics of the reporting entity - this will establish the criteria for determining which groups of activities, whether legal or administrative units or other organizational arrangements, are reporting entities and are therefore subject to IPSASs. This component will also explore the basis on which the boundaries of a reporting entity should be established and therefore which assets, liabilities, revenues, expenses and other elements should be reported in its financial statements.

Consideration of the objectives of financial reporting together with the qualitative characteristics will also illuminate notions of what will be included in primary financial statements and in notes thereto. This will guide/influence consideration of the scope of financial reporting and whether financial reporting in the public sector may encompass additional information in supplementary statements and reports.

Second group of exposure drafts

(d) Definition and recognition of the elements of financial statements – this exposure draft will identify and define the elements that are reported in financial statements and the criteria that will need to be satisfied for their recognition. These will include assets, liabilities, revenues, expenses and notions of net assets. They may also include other notions such as gains and equity which are included in the IASB Framework and the Frameworks of many national standards setters.

(e) Measurement bases and attributes – this exposure draft will deal with bases of measurement that may validly be adopted for the elements that are recognized in the financial statements. It is not intended that the Framework mandate requirements about the measurement bases to be adopted in specific circumstances. This will be dealt with by individual IPSASs which deal with specific transactions and events and are themselves subject to the full due process. Rather this exposure draft will note the implications of the objectives of financial reporting, the qualitative characteristics of financial information and the recognition criteria for measurement bases that may be adopted.

Third grouping of exposure drafts

(f) Presentation and disclosure – this exposure draft (or series of exposure drafts) will deal with the nature and content of the primary financial statements and notes thereto. It will also deal with matters related to the scope of financial reporting such as additional information that may be disclosed as part of the financial statements, or in supplementary reports issued with the financial statements. Material considered as part of, or with this exposure draft, may also raise issues such as: the inclusion within the financial reporting package of budget/prospective financial and other information, compliance with budgets, and the disclosures about the achievement of service objectives. It may also include consideration of the location and audit status of such information. (As the project develops it may be appropriate to consider whether a separate statement on the scope of financial reporting will be necessary.)

This grouping of issues largely reflects that being adopted by the IASB in its joint project with the FASB except that the IASB project, at least in terms of the initial project plan, proposed that exposure drafts on the elements of financial statements be issued before the definition of the reporting entity and an exposure draft dealing with the purpose and status of the Framework be issued towards the end of the project. The timing of the definition of the reporting entity in the public sector has been elevated in this plan because notions of the reporting entity are less well developed for financial reporting in the public sector. An exposure draft on purpose and status is not included in the above schedule because it is intended that this be clearly established in the project brief which will itself be issued as a Consultation Paper – subject to responses to that Paper, this proposal may need to be revisited.

TIMING AND KEY MILESTONES

It is anticipated that the framework will be completed by 2010. Key milestones are as follows:

2007 – Group 1 exposure drafts developed and issued.

2008 – Group 2 exposure drafts developed and issued.
Responses to Group I exposure drafts analyzed. Components of Framework finalized, subject to final review.
Development of Group 3 exposure drafts commences.

2009 – Group 3 exposure drafts developed and issued.
Responses to Group 2 exposure drafts analyzed. Components of Framework finalized, subject to final review.
Cash Basis framework exposure draft developed and issued.

2010 – Responses to Group 3 exposure drafts analyzed. Components of Framework finalized, subject to final review as part of the "full package".
All components of accrual Framework reviewed, confirmed and Framework finalized 2010 (or early 2011).
Responses to Cash Basis framework exposure draft reviewed and Framework finalized (or early 2011).

It is projected that the Framework will be finalized by the end of 2010 or early 2011, with the final complete document published in 2011. This is a tight schedule. It follows closely behind the timing for the IASB Framework which is currently scheduled for completion during 2010 (thought recent reports of the NSS group monitoring the IASB-FASB project indicate that timelines may be pushed out).

Conceptual Framework Development Schedule

Proposed Actions/timing	
July 2006	IPSASB and national standards setters agree to action a collaborative project. Agree preliminary project brief, and tentative views on project resourcing and operating procedures. Subcommittee established.
August/September 2006	IPSASB subcommittee work with national standards setters to formalize proposed project brief and resourcing and operating procedures.
October/November 2006	National standards setters and IPSASB agree formal arrangements at respective meetings in October/November. Proposed project plan comprising approved project brief, operating procedures and key milestones issued as an IPSASB Consultative Paper in November 2006 with comments requested by end of February 2007. Work commences on first components of the framework: - Objectives and Qualitative Characteristics which are common to all Frameworks.
March 2007	IPSASB subcommittee consider comments on Consultation Paper prior to full IPSASB meeting and makes recommendations to IPSASB regarding any further revisions to the project brief and project plan. Subcommittee materials and recommendations also provided to all participating NSS. IPSASB approves commencement of works on reporting entity. Subcommittee considers staff reports on progress on development of first group of EDs and reports to IPSASB.
July 2007	IPSASB considers first group of exposure drafts and provides direction for further development. Work on second group of EDs commences.
October/November 2007	IPSASB reviews and approves second draft of group 1 EDs
March 2008	IPSASB reviews first draft of Group 2 EDs.

Proposed Actions/timing	
July 2008	IPSASB reviews second draft of Group 2 EDs. IPSASB reviews responses to Group 1 EDs. Development of Group 3 EDs commences. Development of cash basis Framework ED commences.
October/November 2008	IPSASB reviews third draft of Group 2 EDs and approves for issue. IPSASB reviews first draft of cash basis ED. IPSASB reviews first draft of Framework components based on group 1 EDs.
March 2009	IPSASB considers first draft of Group 3 EDs. IPSASB reviews and agrees Framework components based on Group 1 EDs.
July 2009	IPSASB considers second draft of Group 3 EDs and approves for issue. IPSASB considers responses to Group 2 EDs.
November 2009	IPSASB considers first draft of Framework components based on Group 2 EDs. IPSASB considers second draft cash basis ED and approves for issue.
March 2010	IPSASB considers responses to Group 3 EDs. IPSASB considers revised Framework components based on Group 2 EDs. IPSASB considers responses to cash basis ED.
July 2010	IPSASB reviews all components of accrual Framework. IPSASB reviews first draft of cash basis Framework.
November 2010/early 2011	IPSASB approves accrual basis Framework and cash basis Framework. Document finalized post IPSASB meeting.

ATTACHMENT 1

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs

IASB Framework	IPSASs
Introduction Purpose and Status Scope Users and Their Information Needs	No separate IPSAS Framework. IPSAS 1 and Preface to IPSASs provide a brief overview of the users of general purpose financial statements. The IASB Framework (IASBF) provides details on major groups of users and the reasons for requesting financial information.
Objective of Financial Statements - Financial Position, Performance and Changes in Financial Position	The IASB Framework identifies the objectives of each individual financial statement. IPSASs include a detailed exposition of the objective for a cash flow statement in IPSAS 2 *Cash Flow Statement*. The IPSASs provide a broad overview of the objective of financial statements in IPSAS 1. See item 13.4 “Definitions and concepts”: for objectives of financial statements.
Underlying Assumptions - Accrual Basis - Going Concern	As specified, IPSASs deal with the accrual and the cash bases of accounting. The notion of going concern is outlined in IPSAS 1.
Qualitative Characteristics - True and Fair View/ Fair Presentation	Qualitative characteristics are included as Appendix 2 to IPSAS 1. They are drawn from the IASB Framework, but do not reproduce it fully. See the attachment to this item for more information about differences in the qualitative characteristics.
Elements of Financial Statements - Financial Position - Assets - Liabilities - Equity - Performance - Income - Expenses	Broadly speaking, the elements are the same. However, the IPSASs define contributions from owners and distributors to owners which are not included in the IASB Framework. There are also differences in some of the definitions. For example, assets include reference to ‘service potential’ in addition to ‘economic benefits’. IPSASs use the term “net assets/equity” while IASB uses the term “equity”. The IPSASs do not define income and interpret the definition of revenue more broadly than in the IASB framework (to include gains).

IASB Framework	IPSASs
Recognition of the Elements of Financial Statements: The Probability of Future Economic Benefit Reliability of Measurement - Recognition of Assets - Recognition of Liabilities - Recognition of Income - Recognition of Expenses	The IASBF establishes general criteria for the recognition of all elements of financial statements. Recognition criteria for certain elements of financial statements is included in specific IPSASs that deal with the particular transaction or event. These criteria are consistent with the general criteria for recognition of elements in IASBF.
Measurement of the Elements of Financial Statements	The IASBF notes that different measurement bases may be adopted. The IPSASs generally reflect the same requirements as in the IASs/IFRSs. However, for items acquired at no or nominal cost, (this is being updated to non-exchange transaction) the IPSAS framework provides additional guidance.
Concepts of Capital and Capital Maintenance - Concepts of Capital - Concepts of Capital Maintenance and Determination of Profit	Not referred to in IPSASs.

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs – terminology/explanation differences

The Preface to International Public Sector Accounting Standards (IPSASs) notes that most IPSASs are based on International Accounting Standards. Therefore, the IASB's *Framework for the Preparation and Presentation of Financial Statements* (IASBF) is a relevant reference for users of IPSASs. However, in developing IPSASs, some public sector context has been added to the IPSASs that differ from the concepts used in IASBF.

Financial Statements

In certain cases, the IPSASs use different terminology to the IASBF. The table below identifies differences in key terms.

In IPSAS	IASB Conceptual Framework
Entity	Enterprise
Reporting date	Balance sheet date
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets/Equity	Statement of Changes in Financial Position
Net Assets/Equity	Equity
Revenue only	Income and Revenue

IPSASs apply to all public sector entities except for government business enterprises. Government business enterprises apply IASs/IFRSs.

Preparation of Financial Statements: the Underlying Assumptions

<u>Basis of Accounting</u>

Financial statements prepared under IASBF use only accrual accounting. However, IPSASs encompass (as specified) both the accrual and cash bases of accounting.

<u>Going Concern</u>

Financial statements are prepared on the assumption that the entity is a going concern. IPSASs and IASBF contain similar guidance for assessing whether an entity is a going concern or not. However, IPSASs include additional explanations to place the notion in a public sector context.

Qualitative Characteristics

1. *Understandability*

   IASBF notes that financial information should be 'readily understandable by users'. IPSASs (see IPSAS 1, Appendix 2) stipulate that "information is understandable when users might reasonably be expected to comprehend its meaning". However, the characteristic of understandability is essentially the same in both frameworks.

2. *Reliability*

   Reliable information satisfies five criteria - faithful representation, substance over form, neutrality, prudence and completeness. IPSASs (IPSAS 1, Appendix 2) uses slightly different words to note that faithfully represented information should reflect the substance of the transactions rather than just their legal form. 'Substance over form' is a criterion used in both the IASB and IPSAS frameworks.

IASBF provides more guidance on prudence than in IPSAS 1, Appendix 2 – IASBF notes that uncertainties surrounding events and circumstances are recognized by disclosure and by exercise of prudence in the preparation of financial statements. IASBF defines prudence and warns against exercising prudence to a degree that affects the reliability of financial information.

3. *Comparability*
While the notions are not different and there is much overlap, IASBF provides more guidance on comparability. The IASBF emphasizes that the measurement and presentation of financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises. IASBF also explains that the need for comparability should not be confused with mere uniformity and should not be allowed to impede the introduction of improved accounting standards or policies when more relevant and reliable alternatives exist.

<u>Fair Presentation</u>
IASBF notes that financial statements are frequently described as showing a 'true and fair view' or 'presenting fairly', while the IPSAS only uses the term 'fair presentation'.

The Elements of Financial Statements

Definition of Elements
The IPSASs include the same "elements" as in the IASBF, with some terminology differences and, in the case of assets, the inclusion of 'service potential' in the definition.

In the IASBF, 'income' comprises 'revenue' which is limited to ordinary activities. In the IPSASs income is not defined, 'revenue' is not limited to ordinary activities and gains are presented as revenue. Similarly, expenses in the IPSASs encompass both expenses from ordinary activities (as defined in the IASBF) and losses. In current IPSASs, the definition of "extraordinary activities" includes an extra criterion requiring the transactions to be 'outside the control or influence of the entity'.

Equity is used in IASBF as the residual interest of the assets after deducting all liabilities while in the IPSASs the term used is net assets/equity. Many public sector entities do not have share capital, but are separate reporting entities owned by another public sector entity. The structure of a public sector entity's net assets/equity may include contribution by owners, aggregate accumulated surpluses or deficits and reserves. For the IASs/IFRSs terminology such as capital, retained earnings and reserves is used.

Recognition of Elements of Financial Statements
Under IASBF, an item that meets the definition of an element should be recognized if:
- it is probable that any future economic benefits associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be, measured reliably.

The IPSASs do not have general recognition criteria (because there is no framework) - rather, the IPSASs identify specific recognition criteria for certain elements of financial statements such as exchange revenue, property, plant and equipment and provisions. The criteria used are similar to those in their equivalent IASs.

Measurement of Elements of Financial Statements

Both frameworks include the same measurement bases: historical cost, current cost, realizable value, fair value and present value when preparing financial statements. The definitions of measurement bases are also similar in the two frameworks.

In regards to items acquired at no or for nominal costs, the IPSASs provide additional guidance that these items should be measured at fair value as at the date it was acquired.

(The term “no or nominal costs” is being replaced with a reference to non exchange transactions.)

ATTACHMENT 2

Definitions, Concepts and "Framework" issues – Accrual IPSASs

Source

Accrual Basis

Accrual basis is a basis of accounting under which transactions and other events are recognized in the financial statements in the period when they occur (and not only when cash or its equivalent is received or paid). The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses. IPSAS 1.6

SCOPE

International Public Sector Accounting Standards (IPSASs) apply to all public sector entities that prepare financial statements. IPSASs do not apply to Government Business Enterprises and to other information presented in an annual report or other documents. Preface to IPSASs.20, IPSAS 1.67

Objective of Financial Statements

Financial statements that are issued for users that are unable to demand financial information to meet their specific information needs are deemed to be general purpose financial statements (GPFS). The objectives of GPFS are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically general purpose financial statements provide: IPSAS 1.13, 14, 2

- a predictive or prospective role;
- information on solvency of the entity (providing information on the flow of resources); and
- information to evaluate the performance in terms of service costs, efficiency and accomplishments.

Reporting Entity

Implicit in the IPSASs is that the reporting entity encompasses resources and entities controlled by the reporting entity.

Financial Statements

A complete set of financial statements includes the following components: IPSAS 1.19

(a) statement of financial position;
(b) statement of financial performance;
(c) statement of changes in net assets/equity;
(d) cash flow statement; and
(e) accounting policies and notes to the financial statements.

The Elements of Financial Statements

The definitions of elements extracted from the Glossary are stated below: Glossary, IPSAS 1.6 and other IPSASs as appropriate (Note Glossary

<u>Assets</u> are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Source

<u>Liabilities</u> are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. to be updated following the improvements project)

<u>Contributions from owners</u> means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
(b) can be sold, exchanged, transferred or redeemed.

<u>Revenue</u> is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

<u>Expenses</u> are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

<u>Net assets/equity</u> is the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1.12

Recognition of the Elements of Financial Statements

The IPSAS s do not have a general "Framework" type rule for recognizing the elements of the financial statements. Rather, the recognition criteria are identified in individual IPSASs. To date, IPSASs have dealt with recognition criteria in specific IPSASs such as property plant and equipment, inventories, leases, investment property, exchange revenue and provisions. Current EDs on issue will extend coverage to non-exchange revenue, and assets from all non-exchange transactions. IPSAS 19.22, 9.28, 19, 33, 17.13, 16.19

<u>Recognition of Exchange Revenue</u>

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied: IPSAS 9.28

(a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Source

Recognition of Property, Plant & Equipment IPSAS 17.13

An item of property, plant and equipment should be recognized as an asset when:

(a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(b) the cost or fair value of the asset to the entity can be measured reliably.

Recognition of a provision 19.22

A provision should be recognized when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

Although each standard outlines specific criteria in recognizing certain items, there is a common thread evident. For an item to be recognized,

a) a probable outflow/inflow of economic benefits or service potential into the entity has to be evident; and
b) the amount recognized are to be reliably estimated/measured.

Measurement of the Elements of Financial Statements IPSAS 1.129, 13.20, Glossary

The measurement basis (bases) used in IPSASs (historical cost, current cost, realizable value, fair value or present value) form the basis on which the whole of the financial statements are prepared.

The defined measurement bases in IPSASs are:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Market value is the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market.

The "reach" of financial statements - Accounting Policies and Notes to the Financial Statements

The information contained in the financial statements is unlikely to enable all the objectives (stated above) to be met. Therefore, supplementary information, including non-financial statements is encouraged to be reported alongside the financial statements to provide a more comprehensive picture of the entity's activities during the period. Examples would include: IPSAS 1.16 1.23-24

- presenting additional information to assist users in assessing the performance of the entity, its stewardship of assets and making and evaluating decisions about the allocation of resources; and

Source

- disclosing information about compliance with legislative, regulatory or other externally-imposed regulations. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations.
- presentation options under ED 27 "Presentation of Budget Information in Financial Statements may extend this reach.

Underlying Assumptions

Of the four usual assumptions underlying financial statements, the IPSAS framework refers to two explicitly. These are going concern and consistency of presentation. Consistency (comparability) is also presented as part of reliability characteristic. The accrual assumption is implicit in IPSASs and the prudence concept is now presented as part of the reliability characteristic:

Going Concern

Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the entity is a going concern, preparers of the financial statements take into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the approval of the financial statements. IPSAS 1.43-44

Consistency of Presentation

The presentation and classification of items in the financial statements should be retained from one period to the next unless: IPSAS 1.47

(a) a significant change in the nature of the operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or

(b) a change in presentation is required by an International Public Sector Accounting Standard.

Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability. IPSAS 1.Appendix 2

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. Users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Relevance

However, the materiality criteria, still applies information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. The relevance of information is affected by its timeliness, nature and materiality. Information is material if its omission or misstatement could influence the decisions of users made on the basis of the financial statements.

Source

Definitions and Concepts – Cash Basis IPSAS

Cash Basis
Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date.

Reporting Entity
The IPSAS requires the reporting entity to report cash it controls.

Financial Statements
General purpose financial statements include the following components:
(a) a statement of cash receipts and payments which:

(i) recognizes all cash receipts, cash payments and cash balances controlled by the entity; and
(ii) separately identifies payments made by third parties on behalf of the entity; and

(b) accounting policies and explanatory notes.

The measurement focus in the Standard is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Qualitative Characteristics
The cash basis standard uses the same qualitative characteristics as in IPSAS framework (IPSAS 1.Appendix 2). The only exception is the exclusion of a paragraph in the prudence assumption providing guidance on practicing caution such that assets and revenue are not understated and liabilities and expenses are not overstated. (Please refer to the comparison between the accrual basis IPSAS framework and the IASBF to note the difference between the IASBF and the qualitative characteristics in IPSASs.)

Going Concern
The requirement to make an assessment of the entity's ability to continue as going concern and to disclose information about the entity's ability to continue is included in the section in the Cash Basis IPSAS. Fair presentation is not mentioned in the Standard. These are both required in the accrual IPSASs.

Understandably, the elements, measurement and recognition of the elements of the financial statements do not reflect the accrual basis of accounting.

ATTACHMENT 3

SUMMARY TABLE OF RESULT FROM SURVEY – March 2006

Where appropriate/necessary please include a brief note on the conceptual framework in your country on the following page.

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
1. In your country is there a conceptual framework (CF) for accounting standards?	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2. If Yes, does it:																	
a) apply to public sector?	N	Y	Y	Y		N	Y	N	Y	N	N	Y		N	N	N*	Y
b) also apply to private sector?	Y	Y	N	N		Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Are there separate CFs for the public and private sectors?		N*	Y	N		N	Y	N	Y		Y	N	N	Y	n/a	N*	Y
3. Are there plans for further developments which impact the public sector? Please attach a brief overview.	Y	Y*	Y[1]	N		Y	Y	N	N	Y	N	Y		N	Y	Y	Y
4. Is the CF (A) authoritative or (B)a guide only?		B*	B	A		A	B	DP	A		guide	A*	A	A	A	A	A**
5. Does the CF deal with:											b)						
a) the cash basis?		N		N		N		N	Y		accr	b)	N	N		N	
b) the accrual basis?		Y	b)	Y		Y		Y	Y		ual	Acc	Y	Y	b)	Y	Y
c) both cash and accrual bases		N		N		N	C	N	N			rual	N	N/A		N	***

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
6. Does the CF deal with: a). Reporting Entity		Y	N3	Y		N	Y	N	Y		Y	Y		N	N	Y	N
b). Objectives		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
c). Qualitative Characteristics		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
d). Definitions of:								-									
Assets,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Liabilities,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Revenues,		Y	N1	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Expenses,.		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Equity/net assets		Y	Y			Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Other terms (indicate in notes)		N	Y4			N	Y	N	N			Y				Y	Y*
e) Recognition criteria		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	
f) Measurement bases		N*	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y
g) Financial statements		N	N5	Y		Y	Y	N	Y		Y	Y		Y	Y	Y	Y
h) Scope of financial reporting		N	Y			N	Y	N	Y		Y	Y		Y	N	Y	Y
i) Frequency of presentation		N	N			N	Y	N	N		Y	N		Y	(Y)	N	N
7. Are other Matters addressed		Y*	Y6			Y	N	N	N		*)	Y		N	Y	Y	Y
									A								

In some cases, members provided additional comments on Framework in their country. Those notes are identified below (they only identify notes in English):

ARG – Argentina (2002 comment)

The Inter-American Development Bank has requested the National Accounting Office of Argentina to harmonize Argentinean public sector accounting standards with International Public Sector Accounting Standards. The Law of Financial Administration states that the National Accounting Office shall be the body responsible for the issuance of any regulations for the national public sector.

AUS – Australia (2006 Comment)

With effect from 1 January 2005, Australia has adopted the International Accounting Standards Board's (IASB's) Framework for the Preparation and Presentation of Financial Statements (Framework), modified to include limited additional guidance on not-for-profit entities in the public and private sectors. The Australian Framework applies to entities in both the public and private sectors. As a consequence of issuing an Australian equivalent to the IASB Framework, the following Australian Statements of Accounting Concepts were withdrawn:

- SAC 3 Qualitative Characteristics of Financial Information
- SAC 4 Definition and Recognition of the Elements of Financial Statements

However, the following Statements of Accounting Concepts were retained:

- SAC 1 Definition of the Reporting Entity
- SAC 2 Objective of General Purpose Financial Reporting

SAC 1 was retained because the IASB Framework does not include a concept of a reporting entity. SAC 2 was retained as guidance to amplify the discussion of the objective of financial statements in the IASB Framework.

In relation to Question 4, the concepts in the Australian Framework are not set out as requirements. However, like International Financial Reporting Standards, some Australian Accounting Standards require application of the Framework in specific circumstances. The Australian equivalent to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors outlines a hierarchy to be followed in developing an accounting policy when an Australian Accounting Standard does not specifically address the transaction. The Framework is an integral part of this hierarchy. In addition, the Australian equivalent to IAS 1 Presentation of Financial Statements specifies application of the accrual basis of accounting (except for cash flow information), and describes the accrual basis as recognition of assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those financial statement elements in the Framework.

In relation to Question 3, the Australian Framework is incomplete. The Australian Accounting Standards Board (AASB) will monitor the joint project of the IASB and US Financial Accounting Standards Board to complete and update their conceptual frameworks, and will develop a revised Australian Framework in the light of that international project. That revision will apply to entities in both the private and public sectors.

In relation to Question 2, the AASB has yet to decide whether to develop a separate Statement composed of additional guidance for not-for-entities in the public and private sectors, as the UK Accounting Standards Board (ASB) is doing with its Proposed Interpretation for Public Benefit Entities in respect of the ASB's Statement of Principles for Financial Reporting. The Financial Reporting Council (the federal government body that oversees the AASB) has commissioned research that may lead to consideration of whether the AASB should retain its policy of issuing sector-neutral pronouncements. The outcome of that research has the potential to lead to changes in the content and structure of Australian pronouncements, including the conceptual framework applicable to public sector entities.

Question 6(f) was answered in the negative because, although the Australian Framework (like the IASB Framework) discusses measurement bases, it does so only in a descriptive sense, not normatively.

In relation to Question 7, the Australian Framework (like the IASB Framework) also discusses concepts of capital and capital maintenance.

CAN – Canada (2006 Comment)

1) Canada's conceptual framework for the public sector does not currently include a definition of revenue though a general revenue recognition principle is included in the general standards of financial statement presentation. This gap is currently being addressed with completion scheduled for November 2006.

2) Canada's conceptual framework for the public sector does not constitute a financial reporting standard, however, where the Public Sector Accounting Handbook is silent on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GAAP.

3) Canada has a separate financial reporting standard addressing the reporting entity Section PS 1300 *Government Reporting Entity*.

4) Definitions of 'Financial Asset', 'Non-Financial Asset' and 'Tangible Capital Asset' are also given in the public sector conceptual framework. The first two definitions necessary to providing a key measure of financial performance for Canadian governments – the measure of 'Net Debt'.

5) The conceptual framework does discuss what information must be portrayed in the financial statements as well as naming those financial statements. However a separate financial reporting standard (Section PS 1200 *Financial Statement Presentation*) gives the actual directive as to what financial statements should be prepared.

6) Canada's conceptual framework for the public sector provides discussion on user identification and user information needs. Further, the framework acknowledges the

'benefit vs cost' constraint when complying with standards for example, in considering disclosure of information beyond that required by the standards.

ISRL – ISRAEL (2006 Comment)

In July 2005, the board of directors of the Israel Accounting Standards Board (private sector), approved a decision in respect of fully adoption of all IFRS's in Israel as of the year 2008.

One of the steps towards the adoption of IFRS's was adoption of the International Framework for the Preparation and presentation of Financial Statements in October, 2005.

The Israeli Government Accounting Standards Board (the Israeli GASB) has been established In the End of 2005. One of its mandatory goals is to adopt the International Public Sector Accounting Standards (Copyright 12/2005). As an integral part of the adoption process, the Israeli GASB will adopt a Conceptual Framework after one will be published by the IPSASB.

JAPN – Japan (2006 Comment)

Accounting Standards Board of Japan (ASBJ), the accounting standards setter for private sector entities issued Discussion Paper on Conceptual Framework in July 2004. The DP was developed by Working Group of ASBJ and does not necessarily represent formal view of Board of ASBJ. The DP has been under "field testing" since the issuance. The DP is considered when ASBJ develop or amend standards but DP itself might be revised by the result of this field testing process. ASBJ seems not to finalize the CF project in a few years.

Since ASBJ is the accounting standards setter for private sector entities, the DP may not impact directly on public sector. However, this is the first and only authoritative document regarding CF of accounting standards in Japan. The DP may have impact on public sector to some extent. My answer in this questionnaire is based on my understanding of the DP issued by ASBJ.

The Japanese Institute of CPAs (JICPA) set up a Project Team to discuss CF for the public sector in 2001. However, the PT did not reach consensus in many aspects. Points of discussion during intensive talks in the PT for one and half years were summarized into "Discussions on CF for public sector accounting" in March 2003. The document is open to the public through JICPA website to aim fostering discussions on CF of public sector accounting. It is in my opinion that, the document has not influence so much on developing public sector accounting standards so far. JICPA currently does not have a plan to further develop CF for public sector.

Malaysia (2006 comment)

In Malaysia, there are two accounting standards setters that are:

(i) Malaysian Accounting Standards Board (MASB), the accounting standards setter for private sector entities and

(ii) Public Sector Accounting Standards Committee (PSASC). the accounting standards setter for public sector entities

MASB formulates accounting standards within the framework of accrual basis of accounting whereas PSASC formulates accounting standards within the framework of cash basis of accounting.

MASB is established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.

The MASB, together with the Financial Reporting Foundation (FRF), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

The Public Sector Accounting Standards Committee is established in the year 1992 in order to enhance accountability and improve standards of government financial reporting. Public Sector Accounting Standards Committee is responsible for issuing of Government Accounting Standards (GAS) in Malaysia. Public Sector Accounting Standards applies to Federal Government and all States Governments.

MEX – Mexico (2002 comment)

The legislation applicable to the Superior Audit Institution was changed a few months ago. It establishes that the Superior Audit Institution will have the responsibility for issuing (or at least approving) accounting standards for the public sector. The current private sector statement of concepts does not apply to the public sector.

NETH – The Netherlands

Public sector:
There is not one single body responsible for public sector accounting standards in the Netherlands. Various ministries develop accounting standards for governmental entities within their jurisdiction. The Ministry of Internal Affairs develops accounting standards for the 12 provinces and 458 municipalities in this country. The Ministry of Internal Affairs also develops accounting standards for the 25 police departments. The Ministery of Transport, Public Works and Water Management develops accounting standards for the 27 waterboards in the Netherlands. Furthermore, each Ministry establishes tailormade accounting standards in separate contracts with each of its agencies. The Ministry of Finance develops standards for the central government all ministries.

Consequently, there is not one overriding conceptual framework for financial reporting by all Dutch public sector entities. There is, however, one conceptual framework in the public sector: the accounting standards developed by the Ministry of Internal Affairs for the provinces and municipalities are based on a conceptual framework. I answered the questions in the survey table for this conceptual framework.

Other Matters addressed: Apart from the items mentioned in the table, this conceptual framework gives a brief guidance on the budget and the operating and financial review.

Companies and non-profit organizations:
The Dutch Accounting Standards Board (DASB) develops accounting standards for non-listed companies and non profit organizations. The DASB developed a conceptual framework for these accounting standards.

Listed companies follow IFRS, as all listed companies in the European Union do.

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

Up until the decision to adopt IFRS New Zealand had in place a single concepts statement - New Zealand's Statement of Concepts for General Purpose Financial Reporting. This was issued in 1993 and some minor amendments were made in 2001.

In 2004 New Zealand adopted IFRS. New Zealand equivalents to IFRS are mandatory for reporting periods commencing on or after 1 January 2007, with early application permitted from 1 January 2005.

New Zealand has adopted the IASB Framework as the New Zealand Equivalent to the IASB Framework for the Preparation of Financial Statements. This Framework will supercede the Statement of Concepts and is applicable by all entities adopting the New Zealand equivalents to IFRS.

The NZ Framework is based on the IASB Framework. The NZ Framework is an essential component of New Zealand financial reporting pronouncements as it establishes definitions and recognition criteria that are applied in other pronouncements.

The IASB Framework was developed for application by profit-oriented entities. The NZ Framework includes material additional to that in the IASB Framework to ensure that it can be applied by all reporting entities required to prepare general purpose financial statements that comply with generally accepted accounting practice in New Zealand. In order to preserve the integrity of the IASB Framework and to enable this NZ Framework to be readily updated for future revisions of the IASB Framework, changes to the text of the IASB Framework have been minimized.

In adopting the IASB Framework for application as the NZ Framework, the following changes have been made.

(a) The discussion in paragraphs 1-4 has been revised to reflect the purpose of the proposed NZ Framework and the role of the FRSB (paragraphs NZ 4.1 to NZ 4.4).

(b) The description of a complete set of financial statements has been amended for consistency with NZ IAS 1 Presentation of Financial Statements (paragraph 7).

(c) A discussion acknowledging the role of non-financial and supplementary information has been included (paragraph NZ 7.1).

(d) Additional paragraphs have been inserted to acknowledge the range of entities that are required to prepare general purpose financial statements (paragraphs NZ 8.1 to NZ 8.3).

(e) A discussion of two additional users of financial statements (funders or financial supporters, and elected or appointed representatives) has been inserted (paragraph NZ 9.1).

(f) A discussion of the role of financial statements in demonstrating accountability has been included (paragraphs NZ 14.1 and NZ 14.2).

(g) A discussion of various types of non-financial and supplementary information has been included (paragraphs NZ 20.1 to NZ 20.8).

(h) Additional guidance for public benefit entities in respect of materiality has been inserted (paragraph NZ 30.1).

(i) An additional paragraph discussing “future economic benefits” and “service potential” has been inserted (paragraph NZ 49.1).

(j) Additional guidance has been inserted stating that in the context of public benefit entities, references to contributions from (or distributions to) equity participants should be read as contributions from (or distributions to) equity holders acting in their capacity as equity holders (paragraph NZ 70.1).

(k) A brief discussion of the elements of non-financial statements has been included. The NZ Framework requires that the quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of the Framework (paragraphs NZ 101.1 to NZ 101.3).

(l) A brief rationale for the New Zealand specific sections has been included as an Appendix.

Projects to revise the Framework

The NZ FRSB is actively monitoring the IASB project to revise the Framework. New Zealand Institute staff are on IASB-FASB project team revising the Framework.

In addition the FRSB is monitoring the project to review the revised IASB Framework from a public sector perspective. The FRSB plans to work with standard setters from other jurisdictions and expects that this work will assist the FRSB in considering what approach to take to the adapting the revised IASB framework for application to public benefit entities in New Zealand.

NOR – Norway (2006 Comment)

Norway has a set of codified basic accounting principles for private sector that have many similarities to a CF. The responses are based on the basic principles. The principles have previously been implicit used as basis for issuing accounting standards, but were explicit stated in the new accounting act from 1999.

SWIT – Switzerland (2006 Comment)

The Swiss Foundation for accounting and reporting recommendations, the issuer of Swiss GAAP FER, has issued a conceptual framework with an effective date of 01 January 2006. This framework, as well as the standards, is only applicable for private sector companies. It is only authoritative for companies applying Swiss GAAP FER.

There are currently discussions between the various stakeholders, whether a Swiss Public Sector Accounting Standard should be developed. While larger entities like the federal government, large states and cities have decided to apply the IPSASs, it remains unclear whether a national standard could prove to be helpful for the numerous small and very small entities. A draft project brief suggests to initiate such a potential project with the development of a conceptual framework.

SAFR – South Africa (2006 comment)

The South African conceptual framework applicable to the private sector is based on the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. The South African Public Sector Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements is based on the private sector framework, but has been updated to reflect the public sector perspective.

South Africa's conceptual framework for the public sector does not constitute a financial reporting standard, however, where no financial reporting standard exists on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GRAP.

As with IFRS, the reporting entity has not been addressed.

We are monitoring developments at the IASB and will make the necessary public sector amendments when the IASB project is finalized.

UK – United Kingdom (2006 Comment)

In 1999 the UK Accounting Standards Board issued its Statement of Principles for Financial Reporting. This applies straightforwardly to the private sector, and has substantially influenced UK public sector standard setting.

The UK ASB has developed, but has not issued in final form, guidance on how the private sector Statement of Principles should be applied to non-profit or 'public benefit' entities. After a discussion paper released in 2003, a full exposure draft "Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities" was issued for comment in August 2005.

The Statement of Principles is authoritative for the private sector inasmuch as it sets out principles which must be considered in the development of UK GAAP. Its status will need to be reviewed in the light of adoption of or convergence with IFRS in the UK jurisdiction. As of 2006, the Statement of Principles remains extremely influential for public sector standard setters, particularly as financial reporting for central government is required to have due regard to UK GAAP.

In addition to the points listed, the Statement of Principles also considers accounting for interests in other entities.

US – United States of America (2006 comment)

There are two bodies responsible for public sector accounting standards – the Federal Accounting Standards Advisory Board (FASAB), which issues concepts and standards for the federal government and its agencies, and the Governmental Accounting Standards Board (GASB), which issues concepts and standards for state and local governments and their agencies. FASAB has issued three Statements of Federal Financial Accounting Concepts (SFFAC) whilst GASB has issued three Concepts Statements.

*GASB's current work program includes two conceptual framework projects, one on financial statements elements and one on recognition and measurement attributes. FASAB is currently requesting comments on its proposed work plan, which includes a project to develop a concepts statement on the elements of financial statements.

**Both the FASAB's and the GASB's concepts statements are considered to be "other accounting literature" in the authoritative hierarchy.

***Would have application to the cash basis to the extent that encompasses a cash flow statement.

In developing the elements concepts, the GASB is proposing definitions for inflows and outflows that will encompass multiple measurement focuses and deferral accounts. Deliberations on the recognition and measurement attribute concepts are scheduled to being the fourth quarter of 2006.

The statements currently on issue are:

SFFAC 1 Objectives of Federal Financial Reporting;
SFFAC 2 Entity and Display;
SFFAC 3 Management's Analysis and Discussion – Concepts;
GASB Concepts Statement No. 1 Objectives of Financial Reporting;
GASB Concepts Statement No. 2 Service Efforts and Accomplishments Reporting; and
GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*.