



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 8 NOVEMBER 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: MIKE HATHORN
SUBJECT: IASB-FASB CONCEPTUAL FRAMEWORK PROJECT -
NATIONAL STANDARDS SETTERS MONITORING GROUP

ACTION REQUIRED

This is an update to the previous report (Agenda item 11.3) on the National Standards Setters group monitoring the IASB-FASB work on the IASB conceptual framework.

It is provided for information of IPSASB members.

BACKGROUND

This is an update to my previous report (at Agenda item 11.3) on materials provided by the Consultant (Mr K Simpkins) to the national standards setters (NSS - Australia, Canada, New Zealand and UK) monitoring the IASB-FASB conceptual framework project for possible public sector/not-for profit-entity implications.

There are two aspects of the monitoring program to update you on: First, an additional report from the consultant; and results of exchanges between the NSS and the IASB. Materials relating to these aspects have been circulated to IPSASB subcommittee members and are available to other IPSASB members on request from staff.

Additional Monitoring Report

The Consultant has provided an additional (3rd) monitoring report, which has been circulated to the subcommittee. It deals with materials considered by the IASB-FASB for their joint meeting in October 2005. In short the report identifies the following concerns:

- 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 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. Similarly stewardship and accountability are not identified as “first order” objectives

- It is not clear where/how GBE's, which are subject to IFRSs, will be considered. This is highlighted for the attention of the NSSs and the IPSASB, with an observation that the IPSASB could consider whether it has any concerns that GBE's are not explicitly considered and whether it wishes to raise the issue with the IASB.
- 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.
- Materials do not identify the role/authority of the framework in GAAP hierarchy.

On the positive side, 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.

Communication with the AASB

A letter was sent to the IASB from the Chairs and senior staff of the NSSs. The letter proposed that the IASB reconsider the decision not to consider the applicability of the framework material to not-for-profit entities until the end of the project.

This proposal was discussed by the IASB but ultimately rejected. The national standards setters are considering whether and how best to pursue this issue with the IASB. In the meantime, the monitoring will continue and will provide potentially useful input for consideration in developing the IPSASB Framework project.

The NSS has also determined that at the end of each stage of the IASB – FASB development process (i.e. objectives, qualitative characteristics) it will produce papers setting out matters that the IASB should consider from a public sector/not-for profit entity perspective and suggested solutions, and provide these to the IASB as input to their deliberations. The intention is to have two papers: one dealing with public sector issues and the other dealing with not-for-profit entity issues. In some/many cases each paper may be the same, but they allow for identification of sector specific issues and provide input for the IASB if it wishes to focus on private sector not-for-profit-entity issues.

PROPOSED ONGOING ACTION

At this stage the subcommittee is simply monitoring materials prepared for the NSS. It is proposed that this monitoring activity should continue: The action proposed by the National Standards Setters in providing input to the IASB has the potential to provide additional benefits to the IPSASB as we develop our own public sector framework in 2006 and beyond.

The Preface to the IPSASs notes that Government Business Enterprises (GBEs) apply the IFRSs. The current IASB-FASB work does not highlight any matters that might be of particular importance for GBEs. At the forthcoming meeting it is proposed that:

- The IPSASB 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 explicitly considered/identified in the development of the IASB Conceptual Framework; and, if yes
- That the IASB be advised of this.

As noted in the NSS materials, this becomes more important given that the IASB proposes to move to an exposure draft rather than a discussion paper as the next step in the development process.