



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 20 OCTOBER 2006
MEMO TO: IPSASB MEMBERS
FROM: PAUL SUTCLIFFE
SUBJECT: **CONCEPTUAL FRAMEWORK REVISED PROJECT BRIEF –
RESPONSES FROM IPSASB SUBCOMMITTEE AND NSS
MEMBERS**

BACKGROUND – Responses from IPSASB Subcommittee and NSS Members

As noted in Agenda item 11.1, the revised draft project brief (included in the first distribution of Agenda materials for this meeting at item 11.2) was circulated for comment to all National Standards Setters and similar bodies (NSS) members who participated in the meeting in Paris in July 2006 and to the IPSASB subcommittee monitoring the IASB-FASB Framework project. Those IPSASB and NSS members were requested to:

- Provide comments on the revised draft project brief;
- Confirm or otherwise their interest in participation in the Conceptual Framework subcommittee to be formed following this (November 06) meeting of the IPSASB; and
- In the case of NSS members, indicate their capacity to allocate staff to develop a first draft of a paper dealing with issues identified in the project brief.

To date, responses have been received from NSS and/or IPSASB subcommittee members from the following jurisdictions/organizations:

Australia (IPSASB Member), IMF (IPSASB Observer), New Zealand (IPSASB Member and NSS), Norway (IPSASB Member), People's Republic of China (NSS), Spain (NSS), South Africa (IPSASB Member and NSS), United Kingdom (IPSASB Member and NSS), United States of America (NSS).

Some NSS and IPSASB subcommittee members have indicated that they are still completing their review of the project brief and will provide comments prior to the next IPSASB meeting. Staff will provide an update on any additional input received at the meeting.

The responses of the NSS and IPSASB subcommittee members are outlined below.

Comments on the revised draft project brief

The following summarizes the comments made by the NSS and IPSASB members who have responded to date, by jurisdiction.

Australia, Norway and South Africa had no specific changes at this stage - in some cases, noting the revised draft was a satisfactory working document for moving forward.

United Kingdom

Expresses the view that, at least as a starting point, the project should be directed at developing a framework for financial reporting (rather than only focus on financial statements). However, also expressed concern that what might be included in general purpose financial reports would not be covered until key task 5. Noted there was a strong case for at least some initial consideration of how financial reporting might be defined and/or what might be encompassed by it to be undertaken before or in conjunction with the consideration of the objectives of financial reporting. (Also noted that the IASB had received some criticism for not proposing to deal with this matter earlier in its framework project.)

Staff is in agreement with this view. This was also raised by other respondents (see USA below). Staff propose that consideration of what might be included in the scope of financial reporting (which was previously identified as key task 5 in agenda item 11.1 on page 11.3) be considered in conjunction with consideration of the objectives of financial reporting. The NSS members who accept responsibility for developing first drafts of consultative papers on the objectives of financial reporting and the matters that might be included within the scope of financial reporting will therefore need to liaise/interact as they develop their papers.

United States of America

Expresses the view that a user needs survey could usefully be undertaken as the first phase of the Framework project to provide valuable input to the Objectives component of the project. Also noted that consideration of the boundaries of financial reporting should be undertaken in conjunction with the objectives of financial reporting, and the status of the authority of the Framework in the GAAP hierarchy should be clearly established early in the project.

Staff believe these proposals have significant merit but have concerns about the resources and time implications of a full user needs survey. Staff is of the view that consideration of user needs should be incorporated in the consultative paper on the objectives of financial reporting and the authors should explore the potential for drawing on recent user needs surveys undertaken in IPSASB member, and other, jurisdictions. Staff propose that the project brief clarify the intended status of the Framework in the GAAP hierarchy and be issued as a public document.

New Zealand

Notes that the IASB Discussion Paper makes it clear that its focus is on business entities in the private sector and that the IPSASB draft project brief excludes government business enterprises (GBEs) from its scope because they are subject to IFRSs. Expresses concern that GBEs will not be dealt with by either the IASB or IPSASB projects.

Staff agree that the IPSASB needs to monitor IASB Framework developments, and to ensure that GBEs are considered either in IASB-FASB project or in IPSASB project. It is timely to communicate with the IAASB to determine a strategy that ensures that matters relevant to GBEs are addressed in the framework projects of the Boards.

Also expresses the view that:

- the project brief should clearly specify that the IASB framework papers will be used as the starting point - noting this point was made at last meeting, is consistent with how the majority of IPSASs have been developed, and should avoid unnecessarily reinventing the wheel. *Staff support this view subject to final agreement of sequence of development of*

components in the IPSASB project. Proposals above to elevate consideration of the scope of financial reporting to earlier in the project sequence may mean the IPSASB will consider this before the IASB issues its paper on the topic.

- The brief should be more explicit about the use of consultants rather than identify such as a default resource if NSS members cannot provide the necessary resources.

Staff view: Agree the role of any consultant be clarified as soon as possible. However, staff do not feel they are in a position to identify the role that a consultant might play until the interests of the NSS participants and the role of IPSASB staff is clarified – that may well occur by this meeting as input from NSS is received and the IPSASB considers its full work program and the allocation of staff across projects.

IMF

While agreeing that adoption of the accrual framework should be the goal of all governments, notes a majority of IMF member countries are likely to follow cash accounting for some time in the future. Accordingly, expresses the view that there is merit in developing the consultative paper on the cash basis framework among the first group of tasks.

Staff view: There will be interaction and overlap between some accrual and cash concepts such as objectives and reporting entity that might influence how soon the cash basis could be developed. However, it could be actioned earlier than currently scheduled in the project program if resources to develop the paper were available. However, as responses from other NSS indicate (see below), this is unlikely to be the case.

People's Republic of China

Expresses the view that:

- the framework should encompass a broader notion of general purpose financial reporting. *Staff support this view and it is proposed that consideration of the scope of financial reporting will be considered early in the project development.*
- characteristics of the reporting entity are so important and so influential on other components that it should be included in the first group of consultation papers developed. *Staff is of the view that this should, and will, occur. The reporting entity is identified as key task three and, it is intended, will be amongst the first group of papers actioned.*
- It is important to identify the users of general purpose financial reports and their information needs - users of financial statements should be a subtopic of objectives of financial reporting. *Staff support this view.*
- the project should focus on a framework for preparation and presentation of financial statements under the accrual basis of accounting. There is no need to deal with the cash basis. *Staff is of the view that while the accrual basis should be the primary focus, it is important to consider conceptual issues that might impact those adopting the Cash Basis IPSAS.*

Interest in participation in the Conceptual Framework subcommittee

A listing of those who had expressed an interest in participating in the subcommittee was included as item 11.3 in the first distribution. The following confirmations and additional expressions of interest have now been received:

Item 11.4 *Responses from NSS on Project Brief*
IPSASB Norwalk, November 2006

Norway (IPSASB Member), USA (NSS - GASB), IMF (IPSASB Observer - Joint participation of the Statistics Department and the Fiscal Affairs Department of the IMF in the capacity of an observer), Spain (NSS)

An updated list of those who have expressed an interest in participating in the subcommittee is included at Attachment 1 to this memorandum – additions and revisions to the previous listing are identified by underlining.

IPSASB Members are reminded to advise staff if they wish to participate in the subcommittee but are not yet included in the attached updated list.

Some NSS members have advised that they are still in the process of finalizing their potential participation in the subcommittee with their Boards/Organizations. Staff will provide an update at the forthcoming meeting. It is intended that the subcommittee membership be finalized by the IPSASB at the forthcoming meeting, when all expressions of interest have been received.

Capacity to Allocate staff to develop a first draft of a paper for subcommittee review

The first group of tasks to be undertaken by NSS staff allocated to this project were identified as preparation of Consultative Papers dealing with the following matters:

1. The objectives of financial reporting;
2. The qualitative characteristics of financial information;
3. The characteristics of the reporting entity;
4. The definition and recognition of the “elements” of financial statements;
5. Additional matters that might be included in general purpose financial reports (rather than in the financial statements themselves);
6. Measurement bases; and
7. The cash basis framework.

For project planning and management purposes, NSS participants were requested to confirm their capacity to provide staff resources for the development of papers identified at 1-5 above.

The following NSS and IPSASB Members have indicated they are able to provide staff resources for the development of such papers:

Norway – Any component other than Cash Basis.

United Kingdom – Any of the first five key tasks. The UK does not have an interest in the Cash Basis. As the project develops further, thought may need to be given to how measurement is addressed.

New Zealand – Will work collaboratively with the Australian Accounting Standards Board (AASB) staff to develop a paper on a key component.

South Africa – Any component other than the Cash Basis.

The following NSS and IPSASB members noted they would be able to contribute resources to review and comment on papers, but not to develop first drafts of papers:

People’s Republic of China, USA – GASB, and IMF – IMF Statistics Department and IMF Fiscal Affairs Department jointly.

The IMF Observer was also noted that the IMF Statistics and Fiscal Affairs departments may be able to contribute by preparing drafts of sections of papers dealing with matters of particular relevance such as, relationship to statistical bases of financial reporting, performance reporting budget reporting, prospective financial information, and reporting on the long term sustainability of fiscal policies and expenditures.

Agenda item 11.1 raised the prospect of “pairing” of NSS members during the paper development stage to take advantage of different perspectives and experiences. There was a general interest in this notion of pairing of NSS members. However, a number of respondents noted that this could add an additional layer to the process, and therefore additional time and resources, before papers got to the subcommittee and subsequently to the IPSASB for review.

As noted above, staff anticipate input from other NSS members prior to the next meeting, and will follow up prior to the meeting. Staff will provide an update on any further commitments of resources from NSS members as soon as possible.

Staff in conjunction with the Chair, will then develop some preliminary proposals on the allocation of tasks to participating NSS members for consideration by the IPSASB at the forthcoming meeting. These proposals will also be circulated to the NSS members. It is intended that at the forthcoming meeting the IPSASB, in conjunction with any final input from NSS participants, agree the allocation of tasks.

ATTACHMENT 1

UPDATE OCTOBER 20: NOMINATIONS FOR MEMBERSHIP OF
CONCEPTUAL FRAMEWORK SUBCOMMITTEE

Contact Name	Country	Chair	Member	Monitor	Provide Staff	Comments
Paolo Germani – cc Pompeo Pepe, Marcello Bessone	Ministry Economica/Finance, Italy		X		X	
Lionel Vareille	Ministry of Finance - France		X		X	
Erna Swart	ASB - South Africa		X		X	
Mr Weidong Feng cc. Ms Hongxia Li	Ministry Finance, PRC China		X		X <u>stage 2 drafts</u>	<u>Stage 1 comment on drafts only</u>
D Victor Nicolas Bravo, Monica Garcia Saenz	Ministry Economy and Finance, Spain		X			<u>Staff availability subject to final confirmation</u>
Ian Mackintosh	ASB - UK		X		X	#Prefer both - PPP if only on 1 subcom
Jim Paul	AASB - Australia		X		X	
Beat Blaser, Markus Stockli	Dept Finance - Switzerland			X	X	
Caroline Mawhood	PSC - FEE			X		
Simon Lee	FRSB – NZ		X		X	#Prefer IPSASB member on subcom
<u>David Bean</u>	<u>USA - GASB</u>		<u>X</u>			
IPSASB Member observers:						
Philippe Adhémar, Jean-Luc Dumont	France		X			*Consult new member 2007+
Erna Swart	South Africa		X			
Carmen Palladino	Argentina		-			
Mike Hathorn	UK	X				
Tadashi Sekikawa	Japan		X			*Only 1 subcom - prefer this to PPP
Greg Schollum	New Zealand		X			
Wayne Cameron	Australia		X			*Consult new IPSASB member
Lucie Laliberte	IMF		X <u>as observer</u>			<u>Prepare sections of some papers</u>
<u>Tom Olsen, Harald Brandis</u>	<i>Norway</i>		<u>X</u>		<u>X</u>	

#**UK ASB**: Would prefer membership of both Conceptual F/W and PPP Subcom. – but if only membership of one possible, prefer PPP subcom.

#**NZ FRSB**: Would prefer NZ IPSASB member be on subcom, but will identify FRSB member if this not possible.

***IPSASB member France**: Notes a new IPSASB member in 2007, who should be consulted.

***IPSASB member Japan**: Can only participate in one subcom and prefer Conceptual F/W subcom.

***IPSASB member Australia**: Notes a new IPSASB member in 2007, who should be consulted and should co-ordinate with Australia NSS re membership.