



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
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Date: June 2, 2011
Memo to: Members of the IPSASB
From: John Stanford
Subject: Conceptual Framework: Objectives of Sessions

Objectives of Sessions

The objectives of the sessions on the Conceptual Framework are:

- To (a) provide the current timetable for the project and consider pressure points relating to that timetable; (b) further consider the Flowchart, 'Reporting Information in Accordance with the Conceptual Framework'; and (c) discuss and provide a direction to Staff on the approach to the classification of responses for the Phase 1 Exposure Draft (CF-ED-1), the Phase 2 and Phase 3 Consultation Papers (CF-CP-2 and CF-CP-3) ;
- To consider a further draft Consultation Paper, *Presentation*, approve the Consultation Paper for issuance, or provide directions for further development; and
- To hold an Education Session on the Deprival Value approach to selecting a relevant measurement basis for assets and liabilities that was discussed in the Phase 2 Consultation Paper.

Agenda Materials

- 3.1 Conceptual Framework: Overall Arrangements
- 3A Phase Four: Presentation: Further Draft Consultation Paper
- 3B Education Session: Measurement: The Deprival Value Model

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

Objectives of Session(s)

1. The objectives of this session are to:
 - Highlight issues related to the project timetable including some key pressure points;
 - Consider the further development of the flow chart, 'Information Reported by a Reporting Entity in Accordance with the Conceptual Framework' and discuss the approach to putting the flow chart in the public domain;
 - Obtain a direction on the approach to the classification of responses during the Staff summary and analysis of the responses to CF-ED-1, CF-CP-2 and CF-CP-3; and
 - Note a change in membership in the Advisory Group for the Conceptual Framework.

Project Timetable

2. The current project timetable is attached at Appendix A. This is the version that was circulated on the intranet on March 31st 2011, with very minor amendments. As stated when that updated version was circulated, the only revisions from the version on the agenda of the March meeting were (a) an indication that the Exposure Draft, *The Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* had been approved in Paris and (b) the deletion of the pre-December 2010 rows relating to the development phases of the Phase 1-3 Consultation Papers. The pressure points identified below were highlighted in the supporting slides for the Coordinator's Report for the March 2011 meeting:
 - The tight timeline between receipt of responses for CF-CP-2, CF-CP-3 and CF-CP-4 and the Review of Responses;
 - There are only two meetings for discussion and approval of EDs for Phase 2 and Phase 3;
 - There is only one meeting for Review of Responses to Phase 2 and 3 EDs and, assuming a 6 month consultation, one further meeting for finalization of chapters relating to these Phases; and
 - There is one meeting for Review of Responses to a Phase Four ED and a further meeting for finalization of the chapter for this Phase (and then only if a 4 month consultation period is adopted for the ED).
3. The feasibility of current timelines will become clearer when progress on the Phase 4 Consultation Paper is known. As previously stated in the memoranda for the November 2010 and March 2011 meetings, in the view of the coordinator, the trade-off between timeliness and quality needs to be evaluated on an ongoing basis.

4. In accordance with previous practice the project timetable will be re-circulated following this meeting.

Action Required

Members are asked to **note** the current project timetable and the pressure points identified by Staff and to **consider** whether the timetable should be modified.

Flow Chart, Information Reported by an Entity in Accordance with the Conceptual Framework

5. At the March meeting a session was devoted to consideration of the Flow Chart (then entitled, *Reporting Information in Accordance with the Conceptual Framework*). A further ad-hoc session was held on the boundary of financial reporting. An Overarching Issues TBG was set up to further develop the Flow Chart and to consider what areas and information sets should be within the scope of financial reporting.
6. Since the March meeting the TBG has had two teleconferences and focused its energies on the Flow Chart. The Flow Chart that has been significantly modified over the last 3 months. The current version is provided at Appendix B. Staff acknowledges the support of the whole TBG, many of whom have participated at unsocial hours. Staff is further very grateful to Jeanine Poggiolini for revising the Flow Chart in response to TBG proposals.
7. This section of the memorandum discusses the following points:
 - Overall approach
 - Revised title, sequence and substance of initial decision boxes
 - Publication
 - Boundary between GPFRs and Other Reports

Overall approach

8. The Flow Chart has been significantly simplified in comparison with the version on the agenda in March. This reflects a view that the Flow Chart deals with the location of information items and that trying to make the Flow Chart fully comprehensive is likely to make it overly complex, and therefore to impair understandability. This simplification also responds to the view expressed by some Members in March that the Flow Chart was attempting to accomplish too much. The Flow Chart is now constructed of Decision Boxes (Rectangular) and Output Boxes (Diamond).
9. Because the Flow Chart deals with location it does not address key issues such as the selection of a measurement basis and derecognition. The TBG explored whether the Flow Chart should address the summarization or disaggregation of the display of elements on the face of the financial statements, i.e., whether an element should be displayed as separate liner items or aggregated with other items

with supporting information in notes. The TBG considered that an ancillary flow chart should be developed to deal with these issues. This task is being led by Gwenda Jensen.

10. The TBG also considers it important that the Flow Chart reflects the Conceptual Framework as it evolves rather than leading the Conceptual Framework in directions that are not reflected in Consultation Papers and Exposure Drafts. This point was particularly important in the TBG's consideration of the wording and sequencing of the initial boxes (see section below).

Revised title, sequence and substance of Decision Boxes

11. As noted above, the March version was entitled *Reporting Information in Accordance with the Conceptual Framework*. That version suggested that the starting point should be (i) the existence of a reporting entity or group reporting entity followed by (ii) the usefulness of information to users for accountability and decision-making purposes and (iii) whether the information is within the scope of financial reporting. Members challenged this approach and suggested that the sequence of actions should reflect the ordering of the Phase 1 documents (CF-CP-1 and CF-ED-1). They directed that the Flow Chart should commence with (i) whether information likely to be useful to users of GPFRs leading to (ii) the identification of a reporting entity or group reporting entity and then (iii) whether information is within the scope of financial reporting.
12. Following the Paris meeting the Flow Chart was revised to reflect this direction. However, during the TBG's deliberations it was questioned whether this revision actually reflected the current proposal in CF-ED-1. It was noted that, although the section on the Reporting Entity in CF-ED-1 is preceded by the sections on Role and Authority, Objectives and Qualitative Characteristics and Constraints, CF-ED-1 does not identify which governments or public sector programs or activities should be identified as a reporting entity or group reporting entity. CF-ED1 notes that, in most cases, legislation, regulation or other authority will require a public sector organization, program, or identifiable activity to prepare GPFRs, While CF-ED-1 identifies factors that are likely to signal the existence of users of GPFRs (paragraph 4.4), and puts forward a view that, in some cases, GPFRs for these entities may be prepared on a voluntary basis (paragraph 4.6) this falls short of proposing that the existence of users always leads to a reporting entity.
13. The approach taken in the revised version of the Flow Chart is to finesse these issues by (i) entitling the Flow Chart, *Information Reported by a Reporting Entity in Accordance with the Conceptual Framework*, so that there is a presumption that a reporting entity exists (**Title**), (ii) starting the Flow Chart with consideration of whether transactions and other events give rise to an item that satisfies the definition of an element (**Decision Box 1**) and (iii) moving the Decision Box on usefulness to **Decision Box 5**.

14. The Flow Chart no longer contains a Decision Box on scope. Reservations have been raised by some TBG participants that, as currently constructed, the Flow Chart would lead to the presentation in a GPFR of any information useful to users for accountability and decision-making purposes. This might seem not fully compatible with paragraph BC1.10 of CF-ED1, which acknowledges that GPFRs may not provide all the information users need for accountability and decision-making purposes. Views are therefore sought on whether a Scope Decision Box is necessary or, alternatively, whether a further Decision Box may be needed below **Decision Box 6** that would require the preparer to consider whether an item, which is judged to be likely to be useful to users for accountability and decision-making purposes and satisfies the QCS and constraints sufficiently for presentation in the GPFRs, should be presented in a GPFR outside the financial statements.

Publication

15. The TBG considers that it would probably not be appropriate to include the Flow Chart in the Phase 4 Consultation Paper (CF-CP-4). However, it might be made available on the website at the same time as CF-CP-4 is issued.

Boundary Between GPFRs and Other Financial Reports

16. At the Paris meeting there was an additional session on the boundary between GPFRs and special purpose and other financial reports. The TBG has considered this issue, but not formed a clear view. The TBG notes that there are broadly two views. One view is that in order for inclusion within the scope of financial reporting there needs to be a demonstrable linkage to financial performance and financial position. A contrasting view is that an entity's performance is not narrowly financial and that accountability needs to be considered more widely, encompassing, for example, the management of increasingly scarce resources such as water.
17. The TBG will consider this issue further over the coming months and has already noted some educational materials developed by the South African Accounting Standards Board.

Action Required

Members are asked to:

- **Consider** the current version of the Flow Chart, *Information Reported by a Reporting Entity in Accordance with the Conceptual Framework* and to **provide views** on its substance and format.
- **Consider** how the Flow Chart might be put in the public domain.

Approach to Classification of Responses

18. The approach to the analysis and summarization of responses to formal consultations has included the use of a classification scheme since the launch of the Standards Program in 1996. The detail of the classifications has varied according to the nature of the document and the specific matters for comment (SMCs) therein. In general it involves a staff assessment of the overall view of the respondent and an assessment of whether the respondent supports the proposition in a SMC, or which of the options put forward in a SMC the respondent supports. In cases where the respondent does not express a view or where the respondent's comments are ambiguous, a category of 'No Clear View Expressed' has been used. The categories are then aggregated and the overall position provided.
19. The IPSASB has frequently emphasized that the consideration of responses involves an assessment of the detailed substantive comments submitted and not a 'straw poll' in which the view expressed by a majority of respondents is adopted in a final pronouncement. During the consideration of the response to CF-CP-1 the IPSASB noted that judgment was often necessary in forming conclusions about whether a respondent supported or opposed a particular proposal and expressed some reservations about the classification approach outlined above; in particular that readers may interpret Staff Views regarding the classification of a response as support or otherwise as the IPSASB's view.
20. Staff notes the above reservations and has reconsidered the approach. On balance, Staff considers that some classification and assessment by staff is useful and that it should be retained. It provides a high level view of the position taken by respondents. However, there is a need to ensure that the agenda item makes it clear that the classification is a Staff View and that this view is not that of the Board. This could be done by ensuring that the schedules indicate that the classification is a Staff View and that the text to the main covering memorandum emphasizes this. An extract of the envisaged summarization schedule for CF-ED-1 is attached at Appendix C.

Action Required

Members are asked to:

- **Note** the current approach to the classification of responses to Consultation Papers; and
- **Provide** directions on the approach to be adopted in the summary and analysis of response to CF-ED-1, CF-CP-2 and CF-CP-3.

Membership of Advisory Group on Conceptual Framework

21. Following the expiry of his term as Chair of the Canadian Public Sector Accounting Standards Board, John Wiersema has stepped down from the Advisory Group. John has been replaced by Nigel Bellchamber, his successor as Chair of PSASB. Staff would like to acknowledge the views that John Wiersema has expressed, particularly related to the issue of whether the legislature is a primary user of GPFRs. The current membership of the Advisory Group is provided at Appendix D.

Action Required

Members are asked to:

- **Note** the change of membership of the Advisory Group; and
- **Acknowledge** the contribution of John Wiersema to the Advisory Group.

Conceptual Framework (Accrual Basis) Schedule 2010–2013

	Phase 1: Objectives, QCs, Scope & Reporting Entity	Phase 2: Elements and Recognition	Phase 3: Measurement	Phase 4: Presentation	Key Characteristics of Public Sector
Dec 2010	<i>ED Issued</i>	<i>CP issued</i>	<i>CP issued</i>		<i>Made available on web as Staff Draft</i>
Mar 2011				<i>CP discussed</i>	<i>ED Approved Issued in April</i>
Jun 2011				<i>CP approve and issue late June/July</i>	
Sep 2011	<i>RR directions to Staff</i>	<i>RR directions to Staff</i>	<i>RR directions to Staff</i>		
Dec 2011	<i>RR directions to Staff</i>	<i>ED discuss</i>	<i>ED discuss</i>	<i>RR</i>	<i>RR directions to Staff</i>
Mar 2012	<i>FC review</i>	<i>ED approve and issue late March</i>	<i>ED approve and issue late March</i>	<i>RR directions to Staff</i>	<i>finalize and approve</i>
Jun 2012	<i>FC approve subject to CIA</i>			<i>ED discuss, approve & issue late June/July</i>	
Sep 2012					
Dec 2012	<i>CIA Phases 2-4 reaffirm</i>	<i>RR directions to Staff</i>	<i>RR directions to Staff</i>	<i>RR directions to Staff</i>	
Mar 2013	<i>Incorporate in Final Framework</i>	<i>FC approve</i>	<i>FC approve</i>	<i>FC approve</i>	<i>Incorporate in Final Framework</i>
April /May 2013	<i>I</i>	<i>S</i>	<i>S</i>	<i>U</i>	<i>E</i>

Key: ED: Exposure Draft, DI: Discussion of Issues, RR: Review of Responses, FC: Final Chapter, CP: Consultation Paper, CIA: Consider Issues Arising from Other Phases of Project

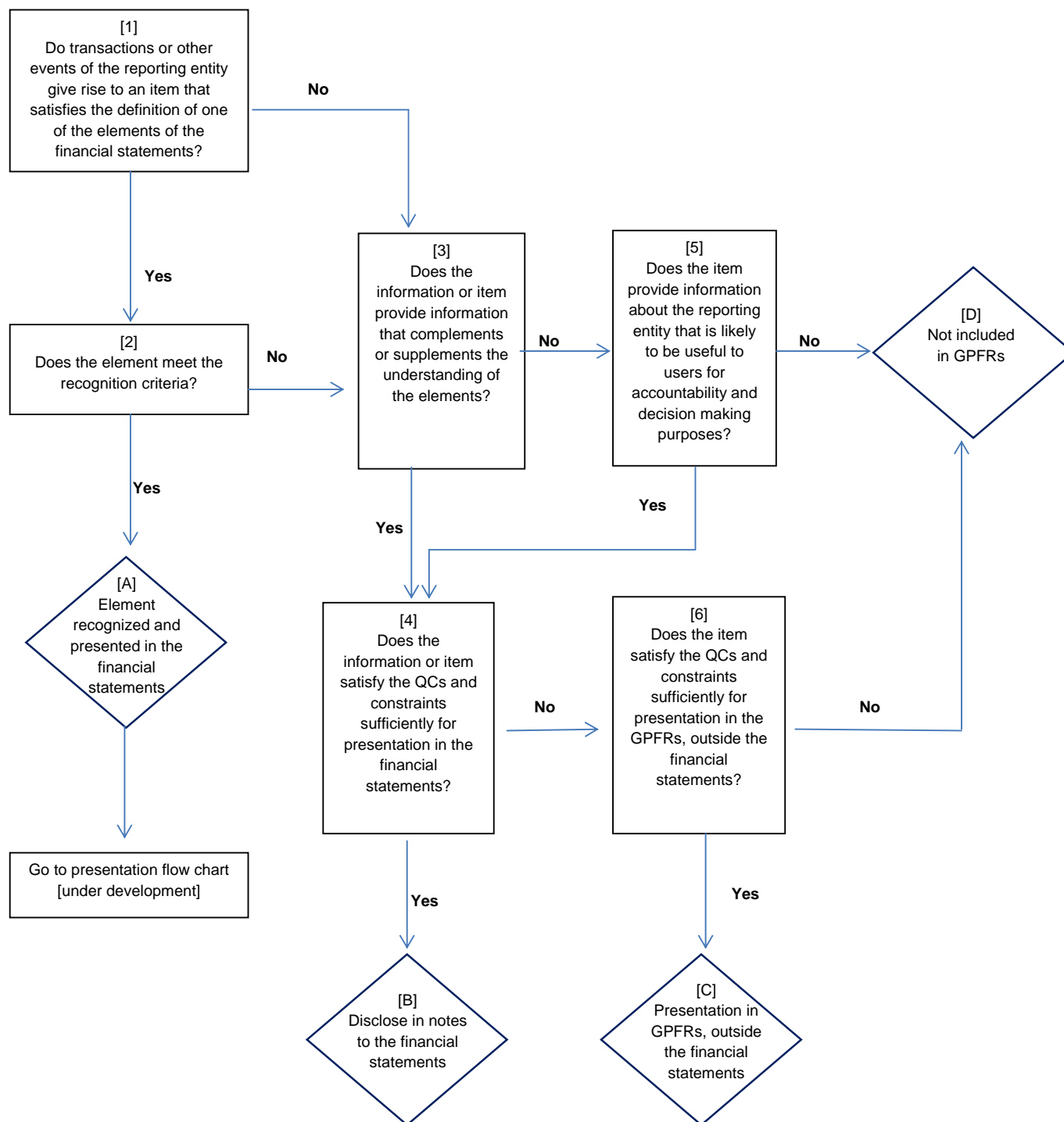
Assumptions

1. There is an exposure period of six months for the Phase 1 ED and the Phase 2 (Elements & Recognition) and Phase 3 (Measurement) Consultation Papers – comment period to end mid-June, 2011.
2. ‘The Key Characteristics of the Public Sector’ was made available as a staff draft with the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers in December 2010. It was approved in March 2011 as a Board document and issued in April 2011 with a consultation expiry date of August 31st. A decision will be made in the future as to whether it is included in the completed Framework or inserted elsewhere in the Handbook..
3. There will be a six months exposure period for Phase 2 and Phase 3 EDs – comment period ending late September 2012.
4. In June 2012 the chapters on the Phase 1 topics (Objectives, QCs, Scope and Reporting Entity) will be finalized subject to a consideration of issues arising from Phases 2 to 4 in December 2012.
5. Further discussions will be held at forthcoming meetings on whether to issue an umbrella ED covering all four phases, and, if so, in what format.
6. There will be an exposure period of four months for the Phase 4 (Presentation & Disclosure) Consultation Paper (comment period ending late October 2011) and for the Phase 4 ED

(comment period ending late October 2012). If a six month exposure period is adopted the timeline will move out by one meeting (i.e., the Review of Responses for the Phase 4 Consultation Paper would commence in March 2012, not December 2011, with a consequent impact on Phase 4 ED development and exposure).

7. Projection is to issue finalized Framework in first half of 2013.

Information reported by a reporting entity in accordance with the Conceptual Framework (Note 1)



Note 1: The Flow Chart does not deal with decisions of an entity at a Standards-level. Where an IPSAS exists, it overrides the Framework. The flow chart (a) assists in understanding the placement of information in the GPFS v GPFR and (b) can be used where no IPSAS exists and the Framework is used.

STAFF ANALYSIS OF RESPONSES TO CONCEPTUAL FRAMEWORK ED 1

Purpose:

To present the Staff analysis of the comments received on Conceptual Framework Exposure Draft ED 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.

List of Respondents:

Response #	Respondent Name	Function
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STAFF ASSESSMENT OF RESPONDENT'S OVERALL VIEWS ON THE EXPOSURE DRAFT—Note these are staff views on overall support or otherwise, and do not necessarily reflect the views of IPSASB members

(A) SUPPORT
(B) SUPPORT WITH RESERVATIONS
(C) DO NOT SUPPORT
(D) NO OVERALL VIEW
TOTAL

CROSS REF TO LETTER	RESPONSE #	CATEGOR- IZATION BY STAFF	GENERAL COMMENTS & OVERALL VIEW	STAFF VIEW

(a) Role

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE	
(B) AGREE WITH RESERVATIONS OR PARTIALLY AGREE	
(C) DISAGREE	
(D) NO OVERALL VIEW	
TOTAL	

[illegible]

Membership of Standard Setters Advisory Panel for Conceptual Framework

- Australian Accounting Standards Board: Kevin Stevenson
- Conseil de Normalisation des Comptes Publics: France: Delphine Moretti
- Federal Accounting Standards Advisory Board: Wendy Payne
- Financial Reporting Standards Board of New Zealand: Kevin Simpkins
- Governmental Accounting Standards Board: Bob Attmore
- International Accounting Standards Board: Warren McGregor
- Public Sector Accounting Board of Canada: Nigel Bellchamber
- South African Accounting Standards Board: Rick Cottrell
- United Kingdom Accounting Standards Board: Andrew Lennard

EDUCATION SESSION

CONCEPTUAL FRAMEWORK PHASE 3: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

Objectives of Session

1. The objectives of this session are:
 - To enhance understanding of the importance of the selection of a measurement basis for financial reporting purposes; and
 - To discuss the advantages and disadvantages of certain measurement bases, and in particular:
 - the extent to which they can be expected to meet the needs of users; and;
 - what issues for accounting standards might arise from their use
2. The session will be led by Andrew Lennard, Director of Research of the UK Accounting Standards Board, the lead author of CF-CP-3. The session will include discussion of a number of examples.

Approaches to Measurement Bases

3. CF-CP-3 drew a distinction between historical and current measurement bases. It also made the point that, apart from assets (and liabilities) that are traded on active markets, there are a number of different current value measurement bases.
4. Chapter 5 of CP-3 contained a discussion of the deprival value model (also referred to as the “value to the entity” model). The deprival value model provides an approach to selection of the most relevant measurement basis for an asset or liability. Because the deprival value model is more complex and, globally, less well known than the other measurement bases considered in CF-CP-3 it received considerable coverage in CF-CP-3.
5. It is important to emphasize that the objective of this session is to enhance the understanding of Members, TAs and Staff and thereby put the IPSASB in a better position to evaluate responses to CF-CP-3 later in the year. It is not the intention to deliberate issues and reach conclusions.

Action Required

Members, TAs and Staff are **encouraged** to ask questions to further their understanding of the deprival value/relief value approaches in the selection of measurement bases for assets and liabilities.