



**INTERNATIONAL FEDERATION
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Agenda Item

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Date: March 7, 2012
Memo to: Members of the IPSASB
From: John Stanford
Subject: Conceptual Framework: Objectives of Sessions

Objectives of Session

The objectives of the sessions on the Conceptual Framework are:

- To (a) provide the current timetable for the project, consider pressure points relating to the timetable and the overall realism of the timetable; (b) note some aspects of the International Integrated Reporting Council's approach to the integrated reporting project, following the closure of the consultation exposure period of the Discussion Paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*; and (c) Note a revision of the Think Piece, *Determining the Boundary of General Purpose Financial Reporting and the Interface between Financial Statements and General Purpose Financial Reports* to reflect some preliminary observations about the potential impact of integrated reporting
- To review the responses to the ED, *Key Characteristics of the Public Sector with a Potential Impact on Financial Reporting in the Public Sector* and provide directions about the further development of the paper;
- To review a draft of a final chapter of Phase 1: *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* and provide directions for finalization ;and
- To further consider issues arising from responses to the Phase 2 Consultation Paper, (CF—CP2), *Elements and Recognition in Financial Statements* and consider an outline preliminary draft of an ED; and

Agenda Materials

- 2.1 Coordinator's Report
- 2A ED, *Key Characteristics of the Public Sector with a Potential Impact on Financial Reporting*: Responses: Staff Collation and Analysis
- 2B Phase 1: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity: Review of draft final chapters
- 2C Phase 2: Elements and Recognition: Further review of responses relating to outstanding questions and key issues; Review of preliminary outline of CF—ED2

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

Objectives of Report

1. The objectives of this report are to:
 - Highlight issues related to the project timetable including the impact of the delay in further development of Phase 3: Measurement;
 - Highlight some aspects of the International Integrated Reporting Council's approach to the integrated reporting project, following the closure of the consultation exposure period of the Discussion Paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*; and
 - Note a revision of the Think Piece, *Determining the Boundary of General Purpose Financial Reporting and the Interface between Financial Statements and General Purpose Financial Reports* to reflect some preliminary observations about the potential impact of integrated reporting.

Project Timetable

2. Following the Brasilia meeting a revised project timetable was circulated later in December 2011. A further revision of the timetable is attached at Appendix A. This contains significant changes from the previously circulated version, necessitated by the decision to take Phase 3: Measurement off the agenda for this meeting, due to the family health issues facing the lead author of Phase 3, Andrew Lennard, and the organizational restructuring of the United Kingdom Financial Reporting Council, Andrew's employer.
3. Approval of the Phase 3 ED is now projected for September 2012 with an initial review of responses to commence in June 2013. As a result of the initial review of responses not being projected to commence until June 2013 the consideration of issues arising from other phases for Phase 1 will also be deferred until June 2013. However, the projected publication date for the finalized Framework remains the first half of 2014.
4. As agreed at the December 2012 meeting the current plan does not include provision for re-exposure of the whole integrated Framework (an 'umbrella ED') prior to finalization. Publication of an umbrella ED will push the final publication date out by at least nine months.
5. As noted in previous Coordinator's Reports the project plan is tight, particularly for Phase 4 where there is only one meeting for a review of responses to the Phase 4 ED and a further meeting for finalization of the final chapter. It will also be challenging to approve the Phase 2 ED at the June 2012 meeting, although slippage to September 2012 may not have a major impact on the overall timetable.
6. 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 to **consider** whether the timetable should be modified.

International Integrated Reporting Council's Approach to the integrated Reporting Project

7. At the December meeting members considered the implications of the work of the International Integrated Reporting Council (IIRC). In mid-September September 2011, the IIRC had issued a Discussion Paper (DP), *Towards Integrated Reporting: Communicating Value in the 21st Century*. Members noted that the DP adopted a private sector perspective and focused on a perceived inadequacy of corporate reporting for the 21st century.
8. Members expressed varying views on the implications of the DP for the Conceptual Framework. Links were identified to the issue of what constitutes a general purpose financial report that the IPSASB has struggled to answer during development of the Conceptual Framework. Members noted the response of the South African Accounting Standards Board (SAASB), which had highlighted the need for the IIRC to consider the public sector. While broadly supportive of the views in the DP, the SAASB response had expressed a reservation over the interpretation of materiality and concern about the focus of the integrated report becoming the primary report, questioning whether such a report would satisfy the needs of users. Other Members considered that the IIRC proposals are embryonic at this stage and cautioned against exaggerating their influence on the Conceptual Framework project.
9. Staff was directed to contact the IIRC Secretariat following the Brasilia meeting to update them on IPSASB developments. The Coordinator met one of the IIRC's Technical Directors, Mike Nugent and, more briefly, the IIRC Chief Executive, Paul Druckman, in London in late February. The Coordinator updated the IIRC Secretariat representatives on progress on the Conceptual Framework. The IIRC Secretariat noted the approach that the IIRC is considering taking to the further development of the project following the review of responses to the DP. In particular the Secretariat is reassessing the viability of its original timetable, which envisaged the issuance of an ED by the end of 2012 and the publication of the finalized Framework by the end of 2013. The Secretariat and IIRC Working Group are considering, as an alternative to releasing one, all-encompassing ED in 2012, as envisaged in the DP, to split the technical work program into two streams:
 - A topic-specific work stream which comprises a series of small projects, each of which would be released as a "mini-ED"; and
 - A Framework work stream which would initially develop the architecture for the Framework, and, in time, the wording for the Framework drawing on the topic-specific projects.

10. Topic-specific projects might include such areas as the definition of integrated reporting (IR), the users of IR and their information needs, the concept of value, the definition of the business model, the reporting boundary and assurance with other topics emerging from the IIRC's pilot program in which over 60 corporate entities from various sectors of the economy have been testing the principles and practicalities of IR. As can be seen from the above list of potential areas, there is considerable commonality with the IPSASB Conceptual Framework project, especially Phase 1.
11. It is very likely that one of the topic-specific areas will be the public sector, which acknowledges the views of those respondents, especially SAASB, that argued that the public sector needs to be considered in detail. The Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA) and its Policy and Technical Director (Ian Carruthers – of course also an IPSASB Member) have had an initial discussion with the IIRC Chief Executive about the possibility of CIPFA taking a lead role in such a working group. There is likely to be scope for further IPSASB Member or Staff involvement in such a group, although the public sector-specific expertise of CIPFA and the proximity of CIPFA to the IIRC Secretariat makes CIPFA ideally placed to adopt a 'bridging role' with IPSASB.
12. Staff also noted the comments of the Secretariat on the view in the DP that "the main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization's primary report, replacing rather than adding to existing requirements." The Secretariat explained that it is not the intention that the IR will replace all other areas of financial reporting, but that IR is not a combined report or an aggregation of existing reports. Staff thinks that this might at least partially allay the reservations of those who question whether IR can adequately meet user needs. Staff has drafted a short section for the Think Piece, *Determining the Boundary of General Purpose Financial Reporting and the Interface between Financial Statements and General Purpose Financial Reports* and added the phrase '*and the Implications of Integrated Reporting*' to the title. This is attached at Appendix B. Members, TAs and Observers are asked to provide suggestions for amendment of the off-line.

Action Required

Members are asked to:

- **Consider** the approach to possible participation in an IIRC Topic-Specific Group on the Public Sector and **note** the updating of the Think Piece, *Determining the Boundary of General Purpose Financial Reporting and the Interface between Financial Statements and General Purpose Financial Reports*.

Conceptual Framework (Accrual Basis) Schedule 2010–2014

	Phase 1: Objectives, QCs, Scope & Reporting Entity	Phase 2: Elements and Recognition	Phase 3: Measurement	Phase 4: Presentation	Key Characteristic s 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 Discussed</i>	
Sep 2011	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>CP Discussed</i>	
Dec 2011	<ul style="list-style-type: none"> RR <i>Directions to Staff</i> 	<ul style="list-style-type: none"> RR <i>Further directions to Staff</i> 	<ul style="list-style-type: none"> RR <i>Further directions to Staff</i> 	<ul style="list-style-type: none"> CP <i>Approved</i> <i>(Issued January 2012)</i> 	
Mar 2012	<i>FC Review and directions to Staff</i>	<i>ED Discuss</i>			<i>RR Directions to Staff</i>
Jun 2012	<i>FC Review and directions to Staff</i>	<i>ED Approve Issue July</i>	<i>ED Discuss</i>		<i>RR Further directions to Staff</i>
Sep 2012	<i>FC Provisionally approve subject to CIA</i>		<i>ED Approve Issue October</i>	<i>RR Directions to Staff</i>	<i>Finalize and provisionally approve</i>
Dec 2012				<i>ED Discuss</i>	
Mar 2013		<i>RR Initial directions to Staff</i>		<i>ED Discuss, & approve Issue April 2013</i>	
June 2013	<i>CIA Phases 2-4 Directions to Staff if necessary</i>	<i>RR Further directions to Staff</i>	<i>RR Initial directions to Staff</i>		
Sept 2013	<i>FC Approve</i>	<i>FC Approve</i>	<i>RR Further directions to Staff</i>		
Dec 2013	<i>Incorporate in Final Framework</i>	<i>Incorporate in Final Framework</i>	<i>FC Approve</i>	<i>RR Directions to Staff</i>	<i>Incorporate in Final Framework (or other location)</i>
Mar 2014			<i>Incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	
May 2014	I	S	• S	• U	• E

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 was an exposure period of six months for the Phase 1 ED and the Phase 2 (and Phase 3 Consultation Papers – comment period ended mid- June, 2011.
2. An ED, *The Key Characteristics of the Public Sector with a Potential Impact on Financial Reporting*, 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 2011. A first full review of responses is scheduled for March, 2012. A decision will be made in March 2012 or June 2012 as to whether it should be further developed, and, if so, whether it should be included in the completed Framework as a separate section, integrated into the Framework or inserted elsewhere in the IPSASB Handbook.
3. There will be a six month exposure period for Phase 2 and Phase 3 EDs – comment period ending mid-late January 2013 for Phase 2 ED and mid-late April 2013 for Phase 3 ED.
4. In September 2012 the chapters on the Phase 1 topics will be completed, subject to a consideration of issues arising from Phases 2 to 4 in June 2013 and final approval in September 2013.
5. Further discussions will be held when the Framework is further advanced on whether to issue an integrated (umbrella) ED covering all four phases, and, if so, in what format. There is no current presumption that an integrated (umbrella) ED will be issued.
6. There is an exposure period of four months for the Phase 4 (Presentation Consultation Paper (comment period ending late May 2012) and a four month exposure period is projected for the Phase 4 ED (comment period ending late August 2013).
7. Projection is to issue finalized Framework in first half of 2014.

*International Public Sector Accounting Standards
Board*

What are the boundaries?

Determining the Boundary of General
Purpose Financial Reports, the
Interface between Financial
Statements and General Purpose
Financial Reports and the
Implications of Integrated Reporting



International Federation
of Accountants

DETERMINING THE BOUNDARY OF GENERAL PURPOSE FINANCIAL REPORTING AND THE INTERFACE BETWEEN FINANCIAL STATEMENTS AND GENERAL PURPOSE FINANCIAL REPORTS

1. Introduction and purpose of this Think Piece

- 1.1 At its June 2011 meeting the IPSASB asked Staff to provide a short paper on (i) the boundary between general purpose financial reporting and other reports outside the boundary of financial reporting and (ii) to consider what distinguishes information appropriate for the notes to the general purpose financial statements (hereafter, the financial statements) from information more appropriate for elsewhere in the general purpose financial reports (GPFRs). This Think Piece deals with three distinct but related questions:
 - (a) What information areas should be within the scope of financial reporting;
 - (b) What types of information within those information areas are appropriate for financial reporting; and
 - (c) What distinguishes types of information that are appropriate for the notes to the financial statements from information that is more suitable for the GPFRs outside the financial statements?
- 1.2 The genesis of the paper is in the IPSASB's consideration of the Flow Chart, *Information Reported by a Reporting Entity in Accordance with the Conceptual Framework* that was developed in late 2010 and the first half of 2011, initially by a Member and a small group of Staff and latterly by the Task Based Group on Overarching Conceptual Framework Issues. A number of Members expressed a view at the June meeting that, while the Flow Chart had identified a number of significant issues, it had done little to (a) identify what delineates financial reporting from reporting on financial and other issues that is outside GPFRs and (b) to distinguish information appropriate for the financial statements from information that is more appropriate for presentation in the more comprehensive GPFRs. The objective of this paper is therefore to (a) note the current position in the conceptual framework and (b) to generate discussion on the approaches outlined.

2. The scope of financial reporting proposed in CF—ED1

- 2.1 The Phase 1 Consultation Paper (CF—CP1), discussed the scope of financial reporting and put forward a preliminary view that the scope would evolve in response to users' information needs. The Phase 1 Exposure Draft (CF—ED1) retained this approach. CF—ED1 proposed that "the scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting (as identified in The Objectives of Financial Reporting section of this Conceptual Framework) and responds to the operating characteristics of public sector entities. The scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting."
- 2.2 CF—ED1 continued to propose that "GPFRs of public sector entities include, but are more comprehensive than, financial statements including their notes. They can report information about the past, present and the future that is useful to users - including financial and non-financial quantitative and qualitative information about the achievement of financial and service

delivery objectives in the current reporting period, and anticipated future service delivery activities.”¹

3. What information areas should be within the scope of financial reporting?

3.1 There are broadly three main views about the information areas that should be within the scope of financial reporting :

- General purpose financial reporting should be restricted to the financial statements, possibly supplemented by narrative reporting (termed Financial Statement Discussion and Analysis in IPSASB’s project);
- General purpose financial reporting should be more comprehensive than the financial statements, but there should be a clear link with the financial statements;
- The information needs of users are so broad that general purpose reporting should extend beyond the domain of financial information and include regulatory areas.

3.2 The first view has been expressed by a number of respondents to CF—CP1, the subsequent CF—ED1 and a minority of respondents to the Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances* (the LTFS CP). Such respondents contest the approach in CF—ED1 and consider that the scope of financial reporting should be limited to the financial statements. They cite a number of reasons for this, including (a) concerns about audit and assurance (compounded if information on ‘more comprehensive scope areas’ is included in the same document as the financial statements); (b) that “more comprehensive scope areas’ are not within the competence of a standard setter; and (c) more practically that a focus on more comprehensive scope areas restricts the resources that can be devoted to developing standards for the financial statements, which should be the focus of the IPSASB.

3.3 CF—ED1 and other IPSASB publications have sought to alleviate concerns on some of these points. Paragraph 1.6 of CF—ED1 stated that “GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting”. The Basis for Conclusions stated that “acknowledging a more comprehensive scope for financial reporting does not mean that it is inevitable that authoritative requirements will be developed to direct reporting on all the matters that may be encompassed by that scope.”, while emphasizing that “information presented in financial statements including their notes remains at the core of financial reporting.”² The *Long-Term Sustainability* CP largely eschewed discussion of audit and assurance requirements for this more comprehensive scope area, addressing instead the approaches that entities might take to enhance the reasonableness and realism of projections.³ Both the LTFS CP and ED 46, *Reporting on the Long-term Sustainability of a Public Sector Entity’s Finances*, the IPSASB’s first attempt to implement the more comprehensive reporting notion, have emphasized the importance of relying on assumptions, methodological approaches and projections that are already available, wherever possible. It has not suggested

¹ CF—ED1, paragraphs 1.5 and 1.6

² Framework—ED1, paragraph BC1.7

³ Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*, paragraphs 7.5.2 and 7.5.4.

detailed principles and methodologies, except at a very high-level; for example, that projections should include both inflows and outflows and be made on the basis of current policy.

- 3.3 The second view accepts that the scope of financial reporting should be broader than the financial statements, but considers that a firm link between the financial statements and more comprehensive information areas is necessary. Precisely defining this link is not straightforward; arguably any activity of a government or public sector entity must be financed and is therefore related to the financial statements. However, proponents of this view might argue that, in the case of fiscal sustainability, projections of future flows are necessary in order to provide users with more information about the impact of decisions made at the reporting date, but not reflected in the statements of financial performance and financial position because information items and transactions do not meet the definitions of, or recognition criteria for, assets and liabilities. Similarly, users need some information on service performance in order to assess how economically, efficiently and effectively resources recognized in the statement of financial performance have been deployed and whether stated policy objectives have been achieved. Such information is particularly relevant in the public sector because of the non-cash-generating nature of most public sector entities. Appendix A is a diagram used by Staff of the South African Accounting Standards Board in order to explain the boundary of financial reporting to their constituents (*note: not included in this updated version, but previously circulated*).
- 3.4 The third view suggests that financial reporting should develop to encompass areas like the regulation of increasing scarce natural resources like water and the approach to dealing with environmental degradation. The grounds for this are that such areas are crucial to an assessment of a government or public sector entity's performance and that a scope that does not include such information areas did not meet the objectives of financial reporting.

4. What types of information should be In the GPFRs?

- 4.1 If the 'more comprehensive' scope proposed in CF—ED1 is accepted there is a consequent issue as to what types of information within an area that is within that scope are appropriate for the GPFRs. The challenge was most clearly laid down by some respondents to the LTFS CP. These respondents commented that, while they supported long-term fiscal sustainability being within the scope of financial reporting, they questioned whether all information on long-term fiscal sustainability is appropriate for the GPFRs. They noted the voluminous and complex material published on long-term fiscal sustainability in an increasing number of jurisdictions and suggested that IPSASB clarify what distinguishes information that is in the GPFRs from information that may be otherwise useful to users.⁴ In this respect CF—ED1 stated that "GPFRs may not provide all the information users need for accountability and decision-making purposes" and that "in addition to GPFRs, governments and other public sector entities report a wide range of financial and non-financial information about their activities, achievements, plans and the economic and other conditions and factors that inform them. GPFRs will need to be read in conjunction with other information provided by governments and other public (and in some cases private) sector entities when users require additional or more detailed information about, for example, the activities and plans of a government or other public sector entity, and the factors that influence them." However, some questioned whether some of

⁴ Response to above Consultation Paper considered at IPSASB meeting in June 2010

these existing long-term fiscal sustainability reports might be GPFRs and, if not, challenged the IPSASB to tell them why not.

- 4.2 Staff has accepted the point that not all information reported on long-term fiscal sustainability is within the scope of general purpose financial reporting, but has had more difficulty developing criteria for what distinguishes information appropriate for the GPFRs from information in the Other and Special Purpose Reporting category⁵ that may be useful to users. A very tentative approach has involved attempting to apply the qualitative characteristics of financial reporting as proposed in CF—ED1⁶ to more comprehensive areas. Thus it has been suggested that, for example, (i) highly lengthy and complex reporting may not be understandable to the users of GPFRs; (ii) information on unlegislated government intent to deal with fiscal deficits is unlikely to meet the QCs of faithful representation and verifiability; and (iii) much information on fiscal sustainability, particularly raw data, may lack the confirmatory and predictive attributes necessary to meet the QC of relevance. However, even some Long-Term Fiscal Sustainability Task Force members, underwhelmed by the foregoing rationalization, questioned whether some existing long-term fiscal sustainability reports might be GPFRs and, if not, challenged the IPSASB to tell them why not.

5. What distinguishes types of information that are appropriate for the notes to the general purpose financial statements from information that is more suitable for the more comprehensive areas of the GPFRs?

- 5.1 A further issue which surfaced in the development of the flow chart is what distinguishes information that should be disclosed in notes to the financial statements from information that should be located elsewhere in the GPFRs, whether in FSDA or in another GPFR. Again, attempts to deal with this issue have been tentative. In developing the flow chart it was suggested that, in order to be appropriate for disclosure in the notes, information must be strongly linked with elements recognized in the financial statements. Links might include characteristics such as (i) providing a disaggregation of line items on the face of a statement, (ii) trend analysis showing the movement on a particular item over a period of years; (iii) details of methodologies for, for example, valuation, depreciation and impairment; (iv) amounts at which assets and liabilities might be stated using alternative measurement bases; (v) reconciliations showing the movement in a particular item during the year; (vi) sensitivity analysis showing how changes in variables used for estimating elements recognized in the statements might affect amounts recognized; and (vii) risk exposures and uncertainties associated with particular items.
- 5.2 The attempt to identify such characteristics foundered because it became clear that developing criteria that distinguishes information appropriate for the notes from information that should be discussed elsewhere is not straightforward. Some information, such as indications of the method used to obtain the fair value of a financial instrument or the way in which an employee pension obligation has varied over a specified time period, seems particularly appropriate for the notes. For other information, it is less obvious that the notes are the appropriate or only location. For example, it is likely that the notes to the financial statements will include information about the nature and extent of risks arising from various financial instruments. Currently, such information

⁵ See diagram on page 16 of .CF—CP1

⁶ See Chapter 3 of CF—ED1

is required by IPSAS 30, *Financial Instruments: Disclosures*. However, IPSASB's ED 47, *Financial Statement Discussion and Analysis* also proposes that the Financial Statement Discussion and Analysis include details of the entity's principal risks and uncertainties and its financial risk management strategy. It is also likely that the impact of very significant financial risks, for example very large financial guarantees, will need to be considered in GPFRs dealing with long-term fiscal sustainability.

5.3 Globally the issue of disclosure has been considered from a different perspective. Concerned with the increasing size of financial reports and the seemingly inexorable increase in disclosure requirements the recent preoccupation of standard setters and their constituents has been to reduce the number of financial statement disclosures required by international standards by applying the materiality constraint more rigorously and introducing a test that a disclosure should meet the objective of being capable of making a difference to users' decisions.⁷

5.4 An alternative approach, but one also aimed at clarifying the basis for disclosures in the financial statements, has been developed by the Chairman of the Australian Accounting Standards Board⁸. This involves the development of criteria for presentation based on a more detailed analysis of user needs that extends beyond decision making and accountability. This approach is still under development, but the principles that have been suggested include users' ability to assess:

(i) the ability of the entity to meet its commitments as and when they fall due, and whether that ability is changing over time;

(ii) the flexibility of the entity to change its financial structure, and whether that flexibility is changing over time;

(iii) the ability of the entity to adapt operationally to changes in its environment, and whether that ability is changing over time;

(iv) the sustainability of the business model being employed, and whether that sustainability is changing over time; and

(v) the ability of the entity to meet its operational objectives.

5.5 Both these initiatives will likely influence the IPSASB in its approach to disclosure at a detailed standards level. A slightly modified version of the approach of the AASB Chair has been highlighted in the Phase 4 Consultation Paper, *Presentation*, as a conceptual approach to presentation in the public sector. However, the more comprehensive scope of financial reporting that the IPSASB is pioneering means that both these initiatives probably provide limited assistance in enabling the IPSASB to distinguish information appropriate for note disclosure in the financial statements from information appropriate for presentation elsewhere in the GPFRs. Perhaps the only solution is to admit that such a bright line is neither feasible nor desirable. An attempt can be made to identify characteristics of information appropriate for the notes to the

⁷ The Institute of Chartered Accountants of Scotland, *Losing the excess baggage-reducing disclosures in financial statements to what's important* (2011)

⁸ Paper delivered by Chair of Australian Accounting Standards Board at National Standard Setters Meeting: New York (2011)

financial statements, using as a starting point the incomplete list in paragraph 5.1. However, in many cases, information may be appropriate for various locations within the suite of GPFs that the IPSASB is envisaging.

6. Integrated Reporting; The Implications of the International Integrated Reporting Council's Project to develop an Integrated Reporting Framework

- 6.1 In mid-September 2011, the International Integrated Reporting Council (IIRC) issued a Discussion Paper (DP), *Towards Integrated Reporting: Communicating Value in the 21st Century*, with a consultation period that ended on December 14th 2011. The DP is from a private sector perspective and proposes explicitly that the initial emphasis should be on the major corporate area. It focuses on a perceived inadequacy of corporate reporting for the 21st century. In the view of the IIRC corporate reports are already long and, in many cases, are getting longer. Length and excessive detail can obscure critical information rather than aid understanding. In the DP integrated reporting is defined as follows:

Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration and sustainability in a coherent whole and importantly:

- *shows the connectivity between them; and*
- *explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.*

- 6.2 The significance of the longer-term implications of integrated reporting for both the IPSASB and the Conceptual Framework are difficult to assess at this stage. The DP put forward a vision of the integrated report as an organization's primary report, replacing rather than adding to existing reporting requirements, and incorporating all reporting that is relevant to an organization's activities, thereby providing users with a more succinct, holistic understanding of the various activities of an organization. From an IPSASB perspective these ambitious proposals blur the

distinction between the financial statements and the “more comprehensive aspects of financial reporting.” that has been so challenging. Recent discussion with the IIRC Secretariat suggests that there is likely to be a clarification of the term primary report and that it will be explained that the primary report is not intended to replace all other reporting. However, integrated reporting is not simply a combined report or an aggregation of existing reports.

- 6.3 Such a clarification might allay the reservations of those who question whether integrated reporting can adequately meet user needs. The provision of a succinct report that highlights and explains an entity’s strategic focus, the connections between the different components of an entity’s business or operating model, external factors with an effect on the entity, the resources and relationships on which the entity depends and the entity’s future orientation would do much to enhance decision-making and accountability. The challenge is whether such an understandable communication mechanism can also meet the qualitative characteristics of faithful representation and relevance. There are also implications for verifiability. As noted in paragraph 3.2 a significant number of respondents to the LTFS CP expressed strong reservations about including ‘more comprehensive’ scope information in the same publication as the financial statements.