

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: December 3–6, 2012

Agenda Item 2

For:

☐ Approval

☒ Discussion

☐ Information

Conceptual Framework

Objective(s) of Agenda Item

1. The objectives of the sessions on the Conceptual Framework are:
 - To (a) **provide** the current timetable for the project (b) **highlight** the approach to conversion of the ED, *Key Characteristics of the Public Sector with Potential Implications for financial Reporting* into a Preface (c) **consider** further and **agree** an approach to the withdrawal of the Appendix containing the explanation of the qualitative characteristics (QCs) from IPSAS 1, *Presentation of Financial Statements*; and (c) to **update** members on the recently reactivated IASB Conceptual Framework project.;
 - To **consider** and **provide** directions on issues arising from the out-of-session review, **review** the draft chapters in Phase 1 (*Role and Authority of the Framework; the Objectives of General Purpose Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; and The Reporting Entity*) and the Preface (formerly *Key Characteristics of the Public Sector*), **provide** directions for final amendment and **approve** for publication;
 - To **review** a preliminary draft ED, *Presentation in General Purpose Financial Reports*, and **provide** directions for further development.

Material(s) Presented

Agenda Item 2.1	Coordinator's Report
Agenda Item 2A	Draft Final Chapters of Phase 1 Chapters and Preface
Agenda Item 2B	Preliminary Draft Exposure Draft (ED), <i>Presentation in General Purpose Financial Reports</i>

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

Objectives of Report

1. The objectives of this report are to:
 - (a) Highlight the most up-to-date version of the project timetable;
 - (b) Note the approach to amendment of the ED, *Key Characteristics of the Public Sector with Potential implications for Financial Reporting (Key Characteristics)* and arrangements for its incorporation as a preface in the supporting information to the Phase 1 Chapters;
 - (c) Further discuss the withdrawal of the current qualitative characteristics (QCs) of financial reporting in IPSAS 1, *Presentation of Financial Statements* on approval of Chapter 3 of Phase 1 of the Framework. This discussion is subject to the IPSASB's approval of the Phase 1 Chapters at this meeting. Consequently, the discussion will follow approval of Phase 1 and will include consideration of the process for withdrawal and any related issues; and
 - (d) Note developments in the International Accounting Standards Board's (IASB) recently reactivated Conceptual Framework project.

Project Timetable

2. A revised project timetable was circulated following the September meeting. This version is attached at Appendix A. The timetable reflects members' decisions to approve the Phase 1 chapters in December 2012, to include *Key Characteristics* as a *Preface* to the Framework, and to issue the Phase 1 chapters in advance of the chapters from the other phases.
3. As noted in previous Coordinator's reports and discussed at previous meetings, the timing for completion of the Framework remains very tight and demanding in some places, despite the approval of the Phase 2 (Elements and Recognition) and Phase 3 EDs (Measurement) in September 2012 and subsequent publication. In particular, there is only one meeting for a review of responses to the Phase 4 (Presentation) ED and a further meeting for finalization of the final chapter on Presentation. Although there are two meetings for reviews of responses for the Phase 2 ED and the Phase 3 ED, the April 30th 2013 consultation expiry date for both EDs means that the first review of responses is likely to be high level.

Matter(s) for Consideration

1. The IPSASB is asked to **note** the current project timetable and to **consider** whether the timetable should be modified.

Key Characteristics

4. At the March 2012 meeting the IPSASB gave directions for further development of *Key Characteristics* with a view to its approval and incorporation into the Framework as a preface. Staff has attempted to modify *Key Characteristics* to make it appropriate for inclusion as a preface, rather

than for its original purpose, which was as a high-level education piece aimed at those with an interest in accounting concepts, but limited knowledge of the public sector.

5. The *Preface* is shown in a clean version in pages 4-10 of Agenda Item 2A.3. A marked-up version showing changes from the version considered at the Dusseldorf meeting is available on request from Staff.

Matter(s) for Consideration

2. The IPSASB is asked to **note** that Key Characteristics has been converted into a *Preface* and will be considered in Agenda Item 2A.

Qualitative Characteristics

6. The current QCs are detailed in Appendix A to IPSAS 1, *Presentation of Financial Statements*. At the Norwalk meeting it was recognized that these QCs would need to be withdrawn after the approval of Chapter 3, *The Qualitative Characteristics* – although no decision was made on timing of the withdrawal.
7. The reason for the inclusion of the QCs in an appendix of IPSAS 1 was that IPSASB's predecessor, the Public Sector Committee, unlike the International Accounting Standards Board (IASB), did not have a Framework, and therefore a set of QCs, in place when the first eight IPSASs were developed and approved. At that time, it was decided that the Appendix was the appropriate vehicle to introduce the explanation of the QCs into the literature. IPSAS 1 was based on IAS 1 to the extent it was applicable for the public sector. There is not an equivalent Appendix in IAS 1, *Presentation of Financial Statements*, because the explanation of the QCs is included in the IASB's Conceptual Framework. The QCs in Chapter 3 of the Framework have been developed by members over a lengthy period, with an extensive due process, which included explanation in the Phase 1 ED of the differences between Appendix A of IPSAS 1 and the QCs proposed by the Board as their replacement. Staff considers it inappropriate to retain the QCs in IPSAS 1, because they no longer reflect the Board's current position on QCs. Staff therefore favors withdrawal of Appendix A following the approval of Chapter 3. In Staff's view this should be done at this meeting, if Chapter 3 is approved. Staff considers that this can be done without exposing the change to a due process, because of the extensive due process that the QCs have been subjected to in the development of Phase 1.
8. There is a direct reference to Appendix A in the Contents page of IPSAS 1. Staff proposes to delete this reference. Staff also proposes to delete direct references to Appendix A in current IPSASs. These include:
 - IPSAS 3.13;
 - IPSAS 18.15(c);
 - IPSAS 24.27
9. Staff proposes that paragraph 15(c) of IPSAS 18, *Segment Reporting*, is deleted except for the initial reference to "the qualitative characteristics of financial reporting". Here and elsewhere Staff considers that a reference to the QCs will lead users to the explanation of the QCs in Chapter 3.

Paragraphs IG1-IG21 of Implementation Guidance in IPSAS 18 repeat the material from Appendix A of IPSAS 1. Staff proposes to delete this material, which is, of course, non-authoritative.

10. There are a significant number of other amendments to the current suite of IPSASs, consequential on the approval of first four chapters of the Conceptual Framework that will need to be considered. Finalization of the Phase 1 chapters and the other chapters of the Framework are likely to prompt a number of other amendments to the current suite of IPSASs, including use of terms such as “reliability” and cross references to the IASB Framework in, for example, the “hierarchy” of authoritative and other guidance in IPSAS 3.
11. Staff proposes that that these and other consequential changes are identified and addressed on a phased basis in 2013 and beyond. This intention should be communicated to constituents through the *Meetings Highlights*, the Conceptual Framework Project History pages of the website, and appropriate press releases.
12. Staff acknowledges that members may wish to discuss this issue further and proposes that any such discussion should follow approval of the Phase 1 chapters of this Framework—that is as the final part of Agenda Item 2A at this meeting.

Matter(s) for Consideration

3. The IPSASB is asked to **confirm** the Staff view that Appendix A from IPSAS 1 and direct references to Appendix A in IPSASs 3, 18 and 24 should be withdrawn following the approval of the Phase 1 chapters, and that the intention to identify and deal with other consequential changes on a phased basis from 2013 onwards should be communicated to constituents.

IASB Conceptual Framework

13. At its September meeting the IASB agreed its approach to the development of its Conceptual Framework project. The main aspects of this approach are:
 - (a) The project is focusing on the elements of financial statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure;
 - (b) There will be a single Discussion Paper covering all of the above areas and then a single Exposure Draft (ED), rather than separate project phases, which was the approach prior to the pausing of the project in 2010; and
 - (c) The framework is an IASB project, rather than a joint project with any other standard-setter.
14. The IASB aims to publish the Discussion Paper in the first half of 2013. An ED is expected in 2014 and the project is expected to be completed in the second half of 2015. Staff's understanding is that the IASB is not intending to reopen the chapters on Objectives of Reporting and QCs, which were finalized before the project was paused.
15. The IASB is setting up a consultative group for this project. National standard-setters, or regional organizations of standard-setters, should constitute a significant proportion of the membership of the group.

Matter(s) for Consideration

4. The IPSASB is asked to **note** the approach of the IASB to development of its Conceptual Framework project.

Appendix A: Conceptual Framework Project Timetable 2010–2014

Conceptual Framework Project Timetable 2010–2014

	Phase 1: Objectives, QCs, Scope & RE	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 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	<i>RR Directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>CP Approved (Issued January 2012)</i>	
Mar 2012	<i>FC Review and directions to Staff for finalization</i>	<i>RR Further directions to Staff</i>			<i>RR Directions to Staff</i>
Jun 2012		<i>ED Discuss</i>	<i>ED Discuss</i>		
Sep 2012	<i>Decision to approve FC in December and publish in late December 2012 or January 2013</i>	<i>ED Approved Issue October</i>	<i>ED Approved Issue October</i>	<i>RR Directions to Staff</i>	<i>Decision to approve in December and publish in late December 2012 or January 2013</i>
Dec 2012	<i>FC Approve and Publish (Note A4)</i>			<i>ED Discuss</i>	<i>FC Approve and Publish (Note A5)</i>
Mar 2013				<i>ED Discuss, & approve Issue April 2013 (Note A3)</i>	
June 2013		<i>RR Initial directions to Staff</i>	<i>RR Initial directions to Staff</i>		
Sept 2013		<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>		
Dec 2013		<i>FC Review and directions to Staff for finalization</i>	<i>FC Review and directions to Staff for finalization</i>	<i>RR Directions to Staff</i>	
Mar 2014		<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	

Key: ED: Exposure Draft, DI: Discussion of Issues, RR: Review of Responses, FC: Final Chapter, CP: Consultation Paper,

Assumptions and Accompanying Information

- A1. 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. There was an exposure period of four months for the Phase 4 Consultation Paper—comment period ended late-April 2012.
- A2. There is a six-month exposure period for Phase 2 and Phase 3 EDs — comment period ending at the end of April 2013.
- A3. A four month exposure period is projected for the Phase 4 ED — comment period ending mid-August 2013.
- A4. At the March 2012 meeting the IPSASB provided directions to Staff on the finalization of the text of Phase 1 and approved the final draft of the Phase 1 chapters, subject to final review of the changes to the text. At the September 2012 meeting the IPSASB directed that the Phase 1 chapters should be brought to the December 2012 meeting for approval and then published. A version of the Phase 1 Chapters was circulated for out-of-session review in early October 2012.
- A5. An ED, *The Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)* 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 an IPSASB document and issued in April 2011 with a consultation expiry date of August 31, 2011. The IPSASB reviewed responses in March 2012 and decided to further develop the text of *Key Characteristics* with a view to its inclusion in the Framework as an Introduction or Preface. At the September 2012 meeting the IPSASB directed that *Key Characteristics* be updated in the form of a preface and brought back for approval in December 2012, along with the Phase 1 final chapters with a view to incorporation in the Framework. (See also A4 above).
- A6. The finalization of Phases 2, 3 and 4 will include a check for consistency with the Introduction, Preface and Phase 1 chapters.
- A7. There is no current presumption that an integrated (umbrella) ED of the proposed Conceptual Framework will be issued.
- A8. Projection is to issue the finalized Framework in first half of 2014.